ADVANCEMENT EXCHANGE
*for Independent Schools*

# Officially HR 1 and Public Law 119-1 Implications for Fundraising

## AeXIS

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# What is the BBB?

- Signed into law in July 4, 2025
- Officially HR 1 and Public Law 119-1 and began the 119th Congress
- As an omnibus law, no single US Code citation as it amends dozens of sections.

- Cited as a “sweeping reconciliation bill” that includes tax cuts and reforms, spending changes, and policy shifts across many areas of federal law, including:
  - Many of the 2017 Tax Cuts/Jobs Act sections (set to expire in 2025) are permanent
  - Added new deductions (e.g., overtime pay, tips, auto loans, seniors).
  - Incentives for using standard deduction and modest universal charitable deductions
  - Boost consumer spending and business investment through lower taxes
  - Paired tax cuts with offsets and new excise taxes on colleges/universities

# What other new deductions?

- BBB added a few new deductions that can help certain workers and seniors:
  - Deduction for qualified overtime pay (the portion above “regular rate” under FLSA).
  - Deduction for qualified tips received by workers in tip-earning occupations.
  - Interest deduction for auto loan purchases only (no leases) on *US-assembled* vehicles (for personal use) but only in certain income ranges (which gets a bit complicated if AGI is over $100,000 annually).
  - Special deduction for seniors (age 65+)—an additional $6,000 deduction through 2028.

# How does the BBB help nonprofits?

- **Universal Charitable Deduction**
  - Starting in 2026, people who *do not itemize* can claim a deduction for charitable gifts up to **$1,000** (single filers), **$2,000** (joint filers).
  - This brings back a tax incentive for donors who take the standard deduction which is ~90% of taxpayers.
  - Nonprofits may want to target middle-income and smaller donors who usually do not itemize for more small-dollar giving.
- **Permanence of Gift Provisions**
  - Some changes that were temporarily in place (e.g., higher limits on cash gifts, certain credits) were made permanent, which may allow more predictability in gift planning.
- **Scholarship Granting Organization (SGO) Tax Credit**
  - Beginning in 2027, contributions to certain scholarship-granting nonprofits will qualify for a tax credit of up to **$1,700** (eligible donors) under specified conditions.
  - Schools and colleges could try to incentivize giving by new donor groups, but not yet in California…

# What is an SGO?

- A nonprofit (501C3) that collects donations and awards K12 scholarships with at least 90% of donations awarded broadly (and in non-discriminatory manner).
- SGOs must meet specific rules: scholarships must go directly to students/families, not schools, and usually must prioritize low- or middle-income households.
- Schools do not qualify as SGOs unless they meet the “substantially all” test — meaning nearly all activities must relate to awarding scholarships.
- Most schools would need to partner with or create a separate nonprofit SGO

BUT…

- SGOs need to be part of state-level “school choice” or tax credit scholarship program where donors give money to the SGO and get a state tax credit; however…
- California has no such program (yet) and is one of about 20 states that currently do not have a private school choice program, and…
- California has not publicly adopted an “opt-in” to the new federal SGO tax credit.

# How does the BBB hurt nonprofits?

- **Reduced Incentive for High-Income Donors and Itemizers**
  - Charitable deduction benefit for high bracket itemizers is capped (e.g., reduced from 37% to 35% for those in top bracket) so tax savings per dollar of charitable giving will drop.
  - There is now a floor of 0.5% of AGI for itemized donors: you can only deduct contributions *above* that floor.
  - For one with high AGI, small/regular gifts under the threshold will not be deductible.

- **1% Corporate Giving Floor**
  - Corporations will not get a deduction unless they give more than **1% of taxable income** in charitable contributions.
  - This may reduce smaller-scale corporate support, or shift which nonprofits receive corporate giving (those nonprofits who can pitch to donors and get larger gifts).

# How does the BBB hurt nonprofits?

- **Large Endowment Tax and Highly Compensated Nonprofit Staff**
  - Private colleges and universities with large endowments face tiered taxes on net investment income, depending on "endowment per student" size.
  - Nonprofits will pay a 21% excise tax on comp over $1M not just for the 5 highest paid employees (as before), but for *all* individuals exceeding that comp threshold.
- **Increased Demand with Shrinking Public Support**
  - BBB will increase community need for nonprofit services (e.g., food, healthcare, housing, etc.) because funding will go down.
  - Nonprofits will face a double burden: more clients/constituents, but less support from government and and from big donors.
- **Estate/Gift Giving Changes**
  - The bill permanently increases the estate tax exemption, meaning fewer estates are taxable; this could reduce estate-based charitable giving or planned giving if people had been giving to reduce estate tax liability.

# What can nonprofits do?

- Shift focus to mid-level and smaller donors (who don't itemize) as the universal deduction provides a new narrative/appeal.
- Educate donors: Make sure major donors, corporations, and foundations understand how the new tax law changes affect their deduction incentives before December 31, 2025.
- Review corporate giving relationships: Some corporations may be rethinking their giving to meet the 1% floor so nonprofits may need to tailor solicitations.
- For those with large endowments (colleges, universities), examine investment strategies, spending policies and restructuring to mitigate higher tax impact.
- Plan for increased demand: organizations that serve basic needs (e.g., food banks, housing, health clinics, etc.) should prepare for more clients, while considering how to stretch resources given lower funding from government.
- Revisit planned giving / legacy giving programs: Donors may change their plans; nonprofits may need to adjust their messaging or structure for planned gifts.

# What to tell non-itemizing donors?

- Call your tax planner well before December 31, 2026!
- Maybe wait until 2026 to make cash charitable contributions (the new $1,000/$2,000 deduction “kicks in” in 2026.
- Avoid contributions to donor-advised funds (DAFs) because they will not be eligible for the new $1,000/$2,000 non-itemizer deduction.
- A non-itemizer has no reason to defer property contributions until 2026, as the new non-itemizer deduction is only available for cash contributions.

# What about itemizers?

- Starting in 2026, for an itemizing individual, any charitable contribution otherwise allowable as a deduction shall be allowed only to the extent that the aggregate of such contributions exceeds 0.5% of modified adjusted gross income (MAGI) for the tax year.
- Contributions disallowed by the 0.5% floor still qualify for carryforward from years in which 0.5% limitation is exceeded.
- **Example:** In 2026, Bernie has MAGI of $200,000 and itemized charitable contributions $10,000. Bernie's 0.5% floor limit is $1,000 (i.e., $200,000 x 0.5%).
- So, Bernie's itemized charitable contribution deduction is $9,000 (i.e., $10,000 less the $1,000 floor).
- Bernie can use the $1,000 contribution carryover to 2027 since 0.5% limitation was exceeded). But, if Bernie had made contributions of $1,000 or less, he would get no charitable contribution carryforward to 2027.

- **So, ask these donors** to make contributions in 2025 to avoid new 0.5% floor.

# What about giving property for itemizers?

- The 0.5% floor reduces both cash and property contributions.
- Some donors may lose property contribution deductions to the 0.5% floor.
- Consider making property contributions (including goodwill drop offs) in 2025, before year end if donor would lose 2026 deduction due to 0.5% floor.
- As mentioned above, a non-itemizer has no reason to defer property contributions until 2026, as the new $1,000/$2,000 non-itemizer deduction is only available for cash contributions.

# What about corporations?

- Under current law (26 U.S.C. § 170(b)(2)), corporations can only deduct up to 10% of taxable income.
- Only the portion of charitable contributions that exceeds 1% will be deductible.
- The 9% spread (between 1% and 10%) is the only amount deductible in 2026.
- Contributions in excess of the 10% limit may be carried forward to the subsequent 5 tax years and applied only after contributions made in the current taxable year.

- A philanthropically-minded high taxable income corporation should make a higher-than-usual charitable contribution in 2025 to avoid the new 1% floor.
- More caution by companies will be used in making contributions because of the 1% floor and 5-year carryover may limit future year deductions.

# What about endowments?

- Colleges and universities with at least 3,000 tuition-paying students and participated in federal loan programs (and are not religiously affiliated or a state institution) will start to pay excise tax based on the per student endowment size, as follows:

| Per student endowment size | Tax rate |
|---|---|
| > $500,000 and ≤ $750,000 | 1.4% |
| > $750,000 and ≤ $2 million | 4.0% |
| > $2 million | 8.0% |

- Must include student loan interest income and “federally subsidized” royalty income, which will increase the amount of tax paid.
- Final rate structure is not as severe as threatened (up to 21%), but these changes will affect a school’s budget and impact Form 990 reporting (expanded to include the number of students).

# What is likely net impact of the BBB?

- The National Council of Nonprofits estimates that although the universal deduction is positive, the combination of reduced incentives for itemizers and reduced incentives for corporate giving will likely lead to a **net loss over 10 years** for nonprofits relative to what they might have otherwise collected.

| Provision | Estimated Impact |
|---|---|
| **Universal Charitable Deduction** | Estimated to generate **$74 billion over 10 years** for nonprofit organizations. |
| **Reduction in Incentives for Itemizers** | Estimated to reduce resources for nonprofit organizations by **at least $81 billion over 10 years**. |
| **Corporate Giving Floor** | Imposes a **1% floor** for the deduction for charitable contributions made by corporations. |

- Certain types of nonprofits will be impacted heavily, including those relying on large gifts, private institutions with large endowments, those that rely on corporate/DAF donations and/or CRTs.

(Source: NCN press release titled *"Congress Passes Major Tax Package; Nonprofits Directly Impacted" on* July 3, 2025).

# Implications for Independent Schools

- Schools will likely not be as significantly impacted as other organizations
- Both every day donors and major donors may change behavior
- Schools should prepare messaging, stewardship and appeals now
- Maximize opportunity, minimize disruption

# Universal Charitable Deduction

**Target: "Everyday donors"**

parent participation donors
alumni
prior non-donors, lapsed donors

Limit: $1,000 (single)$2,000 (married), covers all charitable giving per year

Year-end tax driven appeals may weaken – but early-year appeals maybe more compelling

## Strategic considerations

- clear messaging for non-itemizing donors
- Segment communications highlighting the incentive
- Encourage first-time gifts at the start of 2026

# New Floors and Caps

**Target: Leadership Donors**

capital donors and prospects

leadership annual fund

0.5% AGI floor - could drive "bunched giving" or increased DAF use

35% cap on itemized deduction value (down from 37%) could have major impact on philanthropy

## Strategic Considerations

- Encourage major donors now - maximize deductions before 2026
- Audit processes for DAF stewardship and ease of giving
- Promote multi-year pledges to help donors optimize across tax years

# Corporate Giving

## Minimal impact

Most independent schools have minimal direct corporate giving

Uncertainty: will 1% corporate giving floor affect matching gifts?

Will companies expand matching to meet the floor?  Or shift giving into larger grants to single organizations?

# Questions & Answers