



New Tax Law Provisions for Tax-Exempt Organizations

Excise Tax on Large Endowments

The law expands the existing 1.4 percent excise tax on net investment income for colleges and universities with large endowments. Now, more institutions may meet the threshold based on the size of their assets relative to student enrollment.

If you're affiliated with a school or donor network affected by this provision, it's worth reviewing your exposure.

Two Key Changes to Charitable Deductions

The new law enables more taxpayers to take charitable deductions. Currently, only about 10 percent of taxpayers itemize their taxes¹, which means most of the remaining 90 percent receive no tax benefit for their giving. The OBBB addresses this by allowing all taxpayers to deduct a portion of their charitable giving: up to \$1,000 for individuals and \$2,000 for married couples.

Second, high-income donors will see tighter limits on itemized deductions, including charitable contributions. While the charitable deduction remains intact, the cap on total itemized deductions, sometimes called the *Pease limitation*, has been reinstated for certain earners. This change could affect giving behavior among major donors.

Private Foundation Reforms

Private foundations also face new compliance expectations, including:

- *Stricter reporting requirements.* While the IRS has not released all implementation details, the bill signals likely changes such as expanded disclosure of related-party transactions, more



detailed grant-making reports, tighter tracking of administrative expenses, and faster or more frequent reporting cycles.

- *Revised self-dealing rules.* The new rules broaden the definition of self-dealing, making it easier for certain transactions, like loans, leases, or services involving insiders, to trigger penalties, even if they were previously considered permissible.
- *Heightened scrutiny of donor-advised funds (DAFs).* Foundations may face additional disclosure requirements.

These updates may lead to more administrative oversight and planning considerations for foundation boards and staff.

Proposed increases on excise taxes for private foundations did not make it past the Senate. These increases would have had a significant impact, especially on the largest private foundations, amounting to an estimated annual tax increase of \$2.9 billion.²

Funding for the IRS and Oversight

The bill increases funding for IRS oversight of tax-exempt organizations, signaling a likely rise in audits and enforcement activity in the years ahead.

The Bottom Line

While this legislation is primarily tax-focused, it also has implications for the nonprofit sector. Now is a good time to review governance policies, assess compliance processes, and revisit planned giving strategies with your advisory team.

If you have questions or want to talk through next steps, your CAPTRUST team is here to help.

¹ "Trends in Itemized Deductions Since TCJA," USAFacts

² "Understanding Proposed Tax Changes for U.S. Private Foundations," United Philanthropy Forum

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