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OBBBA for Nonprofits: What You Need to Know

August 12, 2025



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Agenda



Overview and
backdrop



Charitable
deduction changes



Overtime, tip tax,
and 1099s



Green energy
credits



Medicaid, SNAP,
and other changes



Outside of OBBBA –
what to watch



Overview and Backdrop



One Big Beautiful Bill Act (OBBBA or OB3A) passed
July 4, 2025



This agenda covers the 5 most impactful areas to nonprofit organizations within
the final bill



Prior versions of the bill included
potentially harmful provisions to
nonprofits that were REMOVED including:

- Fringe benefit taxation (dreaded parking tax!)
- Research income limitations
- Expedited status revocation
- Foundation excise tax increases

Charitable Deduction Changes



Individual charitable
contribution deduction for
non-itemizers (2026)



Individual charitable
contribution .5% of AGI floor
(2026)



Corporate charitable
contribution 1% of taxable
income floor (2026)

Charitable Tax Credit – Scholarship Granting Org

- Nonprofit entity whose primary mission is to provide scholarships to eligible K-12 students at qualified private schools
- Dollar-for-dollar tax credit against tax liability (up to \$1,700)
- Nonrefundable
- Cannot be earmarked for specific students
- State opt-in requirement
- More guidance to come!



New Overtime Tax Deduction

Beginning with the 2025 tax year and continuing through 2028, the *One Big Beautiful Bill Act (OBGBA)* introduces a new federal income tax deduction specifically for qualifying overtime pay. This provision allows eligible employees to deduct up to **\$12,500** from their federal taxable income, or **\$25,000** for those filing jointly, based on the *premium portion* of their overtime earnings.



What counts as “premium” overtime pay?

Under the Fair Labor Standards Act (FLSA), overtime pay is typically calculated as “time-and-a-half.” The *premium portion* refers to the extra “half” paid above the employee’s regular hourly rate. Only overtime mandated by the FLSA qualifies for this deduction and overtime earned under state specific laws does **not**.

For example, if an employee’s regular rate is \$15 per hour, the employee’s overtime rate (time and one-half) is \$22.50 per hour. **Only the \$7.50 overtime premium for that hour may be deducted.**



Overtime Tax Deduction Takeaway and 1099 Update

- Employees receive their overtime pay as usual through their paycheck. The tax benefit comes later, when filing their annual tax return, by deducting the premium portion of qualified overtime from their taxable income using the data reported on their W-2.
- The deduction is applied when employees file their **Form 1040**, potentially lowering their overall federal tax liability or increasing their refund.

Form 1099 threshold for non-employees:

- Starting in 2026, the threshold rises from \$600 to \$2,000, adjusted annually for inflation.



Tipped Earnings Deductions

The One Big Beautiful Bill Act (OBBBA) introduces a tax provision for tipped workers, allowing them to deduct up to \$25,000 in qualified tip income annually from 2025 through 2028.

What qualifies as a deductible tip?

- To be considered a “qualified tip”, the payment must meet the following criteria:
- **Voluntary:** The tip must be freely given by the customer and not subject to negotiation.
- **Not mandatory:** Automatic service charges or mandatory gratuities, such as those added to wedding packages or member bills, do not qualify.
- **Shared tips:** Tips received through tip-sharing arrangements are considered qualified.

The deduction phases out for individuals with modified adjusted gross income over \$150,000 (or \$300,000 for joint filers) and is available to both itemizing and non-itemizing taxpayers.



Green Energy Credits – Legislative Changes

Credit	One Big Beautiful Bill
Section 45W – Commercial Clean Vehicles	Repeals credit for vehicles acquired after September 30, 2025.
Section 30C – Alternative Fuel Refueling Credit	Repeals credit for property placed in service after June 30, 2026.
Section 48E – Clean Electricity Investment Credit	Accelerates the expiration of the tax credit for wind and solar facilities. For property whose construction began 12 months or more after the date of enactment, the earlier phase out of tax credit applies to property placed in service after December 31, 2027. For property whose construction begins within 12 months of date of enactment, the original phase out rules apply.
Section 179D – Energy Efficient Commercial Building Deduction	Terminates the deduction for property that begins construction more than 12 months after DOE.



Green Energy Credits – Know Your Dates!



Effective for assets placed in service on or after 1/1/2023



Credits may be claimed once property is placed in service



Fiscal year end will determine period in which property is placed in service and tax return due dates



Construction start date is important under the Inflation Reduction Act



Construction generally starts when:

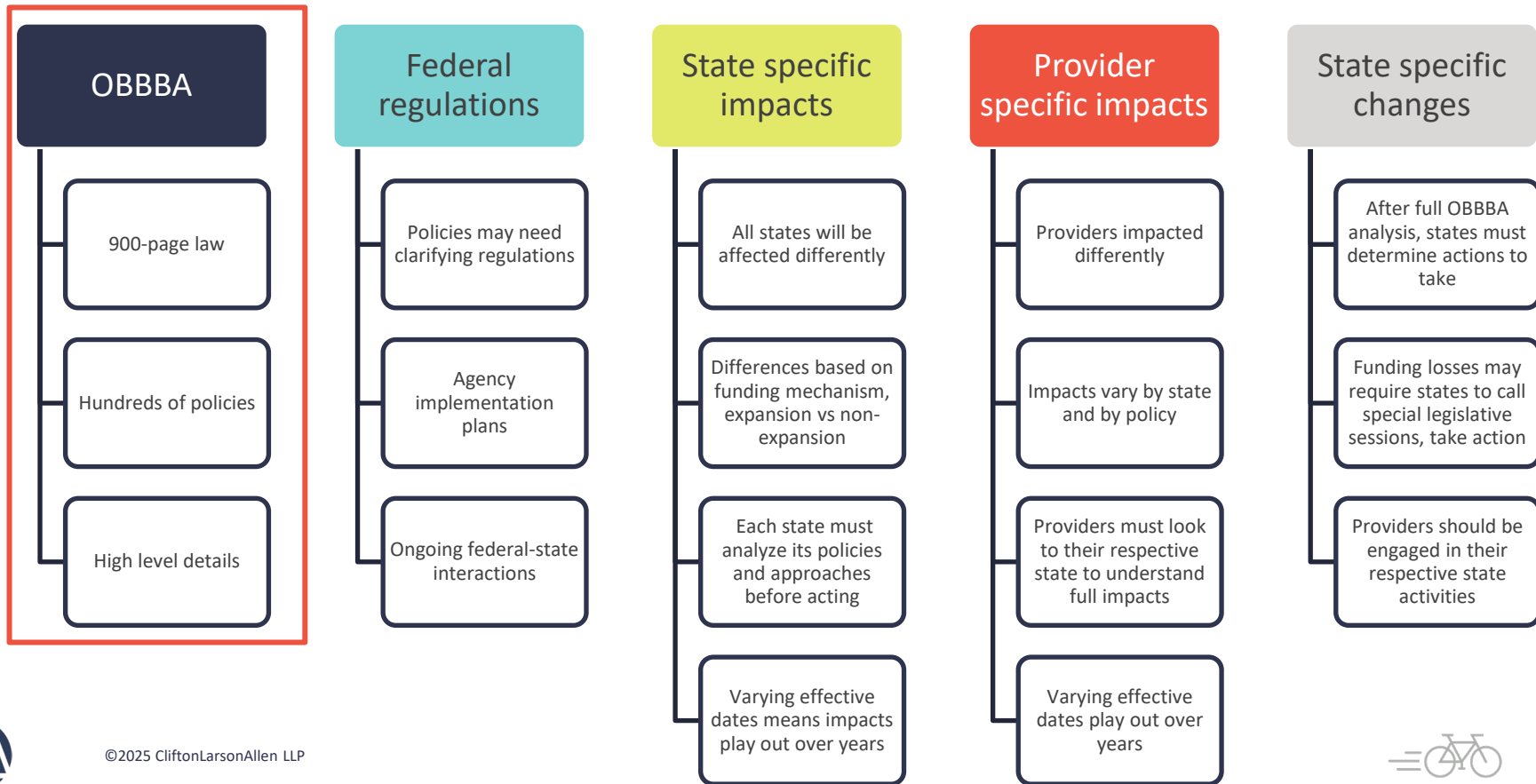
5% or more of the cost of the property is paid or incurred, or
Physical work of a significant nature begins



Executive order issued July 2025 may change the governing rules for Sections 45Y and 48E



Health Care: Enactment Is Just the Beginning



Major Medicaid Policies

Provider taxes (CBO savings estimate = \$191B)

- Bans new provider taxes
- Tighter provider tax methodology requirements
- Freezes provider taxes in non-expansion states
- Reduces provider tax rate (ie: safe harbor %) in expansion states from 6% to 3.5%

State directed payments (CBO savings estimate = \$150B)

- Bans states from mandating Medicaid managed care companies pay providers more than 100% of Medicare
- Allows non-expansion states to pay up to 110% of Medicare rates
- Grandfathered SDPs rates reduced by 10% each year until rate equals either 100% Medicare or 110% Medicare, beginning 2028.

Work requirements (CBO savings estimated = \$325B)

- Able-bodied adults - work, volunteer, education (some exemptions)
- 80 hours per month
- Called “community engagement”



Other Health Care, SNAP Policies



Rural health care transformation funds
(\$50 billion over five years)



ACA marketplace changes
(Stricter requirements, lawfully present
immigrants)



SNAP reductions
(More costs transferred to states, work
requirements)

A Few Final Thoughts

CBO estimates \$1.1 trillion in health care spending reductions over 10 years

Many, many moving and interrelated parts

Impacts will vary by policy, by year, by state, by program, financing mechanism

Policies all have varying effective dates

Each state will need to assess impact, develop plans to address shortfalls and enact policy/funding changes

New rural transformation funds could assist some locations

State and federal advocacy will be ongoing!



Outside of OBBBA – What to Watch

- Recission:
 - 7/18 Congress decision (\$9B cut; USAID, Corporation for Public Broadcasting)
 - Discussion of next round of recissions, potentially focused on Dept of Education Funding
- Funding Hold Backs (example- \$4B after school funding; now released)
- Continued Executive Orders



Polling Question

I'd like someone from CLA to contact me to discuss the following OBBBA topics:

- Charitable giving
- Payroll and/or 1099
- Green energy credits
- Medicaid/SNAP
- All OBBBA impacts
- No follow-up needed at this time



Thank you!

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