Navigating OBBBA Tax Reforms for Exempt Entities

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Your Presenters

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Agenda

1. OBBBA Overview
2. What didn't make it into OBBBA
3. Direct impacts on tax-exempt organizations
4. Clean energy changes
5. Indirect impacts on tax-exempt organizations
6. Compliance risks & planning strategies

Expansion of Section 4960 Excise Tax on Excess Executive Compensation

- § 4960 levies a 21% excise tax on tax-exempt employers who pay over $1M in compensation or parachute payments

Current Law:

- Only applied to top five most highly compensated employees

Under OBBBA:

- The excise tax now applies to all employees, not just top five
- Includes employees of related persons or government entities
- Medical/veterinary remuneration carve-out remains
- Effective for tax years beginning after Dec. 31, 2025
- Implications
  - Broader exposure but simpler tracking
  - Nonprofits must review all exec comp packages

Expansion of § 4968 Excise Tax on Private Colleges & Universities

Previous Rate (Flat)

1.4%

Excise tax on net endowment income (2018–2025)

New Top Rate (Tiered)

8.0%

Highest tier excise tax on net endowment income (from 2026)

Student Threshold

3,000

Min. tuition-paying students to be subject (up from 500)

Asset Threshold

$500K

Endowment assets per student (minimum to trigger tax)

Expansion of § 4968 Excise Tax on Private Colleges & Universities

Additional Key Changes

Expanded Definition of Income

Student loan interest now included in income calculation

Licensing income from research funded by U.S. government grants included in income calculation

Previously excluded income still excluded – tuition/related revenue, government grants, gifts/contributions

New Reporting Requirements

Form 990 Disclosures –

- Student count/methodology
- Endowment valuation details
- Consolidation of related organization assets/income

Clean Energy Credits: What Is Phasing Out & What Is Still in Play

IRA

Clean Energy Credits

Capital Expenditures

- Clean energy property
- Construction/renovation

Manufacturing

- Manufacture of clean energy property
- Re-equip/expand manufacturing facility of clean energy property

Carbon Sequestration

- Capture – dispose or utilize

Alternative Fuels

- Clean nuclear
- Biodiesel & others
- Clean hydrogen
- Aviation fuels

Electric Vehicles

- Vehicles
- Charging stations
- Mobile machinery

Energy Production

Bonus Credits

Domestic Content

10%

- Steel & Iron – 100% U.S. Sources
- Manufactured product – 45% U.S. components (2025 projects)
- Safe Harbor rules

Energy Community

10%

- Brownfield Site
- Statistical area – specific requirements
- Census tract with (or adjoining) closed coal mine
- Website/map available

Low Income Community

10% – 20%

- Solar facilities
- Wind facilities
- Applies to additional clean energy technologies beginning in 2025

Monetizing Credits

Direct Pay – Cash “Refund”

- Generally available for tax-exempt entities
- Elective Payment
  - Creates a refundable credit even if no tax liability exists
  - Election is irrevocable for the tax year once made
- Registration of projects required
- Credit is claimed on Form 990-T
  - Organizations that normally would not file 990-T are required to file to receive the Direct Payment and claim the credit

The One Big Beautiful Bill
Clean Energy Credits

Summary

- Full repeal of many credits
- Adjustments or accelerations of phaseouts to other credits
- Adds provisions to disallow credits for taxpayers deemed to be “specified foreign entities” or foreign-influenced entities (or those involved with them in specific ways)

Credits Terminated

- Sections 25E, 30D, and 45W (clean vehicle credits) terminated for vehicles after September 30, 2025
- Section 30C (Alternative Fuel Vehicle Refueling Property Credit) terminated for property placed in service after June 30, 2026
- Sections 25C and 25D (home credits) terminated for property placed in service after December 31, 2025
- 179D repealed for projects starting construction after June 30, 2026

The One Big Beautiful Bill
Clean Energy Credits

Production & Investment Tax Credit Sections 45Y and 48E

Solar and Wind Projects

- Projects that begin construction within 12 months after date of enactment (by July 4, 2026) must be placed in service by end of 2030
- Projects that begin construction 12+ months after date of enactment must be placed in service by end of 2027 to claim a credit
- Foreign entity restrictions on materials used after December 31, 2025

Other Energy Projects (not solar or wind)

- Examples are battery storage, geothermal heat pumps, etc.
- Construction must begin before 2034 to claim the full credit
- Phase down of credit in 2034 with complete elimination in 2036

Transferability allowed

- Only change is cannot transfer to a foreign prohibited entity

IRA Case Studies

IRA – Simple Example

Company places solar panels on rooftop in 2024. The basis of the property is $1,000,000. Assuming all bonus credit requirements are met, the credit calculation would be:

Pre IRA

Description	Rate/ Calculation	Credit Amount
Base credit	30%	**$300,000**

Post IRA

Description	Rate/Calculation	Credit Amount (Cumulative)
Base credit	6%	$ 60,000
5 times bonus	x5	$300,000
Domestic content	10%	$400,000
Energy community	10%	**$500,000**

IRA Tax Credit Case Study #1

Organization Facts

- Community college
- Solar Panel Farm installed in August 2024
- Total cost basis of project – $2,000,000

Credit Calculation

- System produces less than 1 megawatt
- Located in an Energy Community
- Full repayment of capital spend within 5 years

Base Credit Only

$2,000,000 x 30% = $600,000

Energy Community Bonus

$2,000,000 x 10% = $200,000

Total Section 48E Tax Credit

$800,000

Net Project Cost

$2,000,000 x 60% = $1,200,000

Anticipated Energy Cost Reduction

$20,000 per month

Annual Savings = $240,000

Repayment Calculation

$1,200,000 / $240,000 = 5 Years

IRA Tax Credit Case Study #2

Organization Facts

- Large city in Texas – population over 1M
- Installed multiple rooftop solar systems – $3M spend
- Installed multiple electric vehicle charging stations – $140K spend
- Purchased 50+ commercial clean energy vehicles – $3M spend

Credit Calculation

- Section 48 ITC – $1.2M (energy community)
- Section 30C – $42K
- Section 45W – $412.5K
- Total Credits – $1,654,500

Claim & Monetize

- Direct Pay Registration
- Returns, Elections, Special Forms
- Tax Return Preparation & Filing

Date Construction Began	Project Placed in Service	Pre-Registration Completed	Filing of Form 990-T & Applicable Forms	Direct Payment Received
January 2024	Before September 30, 2024	January 2025	By August 15, 2025	After Return Is Processed

Charitable Contributions
Corporations

- New 1% floor on charitable contributions
- Corporations generally allowed to deduct charitable contributions up to 10% of corporation's taxable income (contribution base).
- 1% floor for tax years beginning after December 31, 2025
  - If contributions less than 1% of contribution base, no deduction
  - If contributions are between 1% and 10%, deduction is actual contributions less 1% of contribution base
  - If contributions exceed 10% of contribution base, current year deduction is 9%
- Five-year carryforward for:
  - Contributions in excess of 10% contribution base
  - The 1% floor for years in which the 10% limit was exceeded

Charitable Contributions
Individuals

Itemized deductions

- Charitable contributions limited
  - New 0.5% floor on itemized charitable contributions
  - Permanent 60% AGI limit for cash gifts; 30% AGI limit for appreciated assets
- New 2/37$^{\text{ths}}$ Rule limiting itemized deductions for individuals in highest bracket
- SALT cap increased to $40,000

Standard Deduction

- Made permanent
  - 2025: $15,750 single; $31,500 joint; +$6,000 for 65+ through 2028
  - Phaseout at $75K/$150K MAGI
- Non-itemizers can deduct up to $1,000 ($2,000 joint)

Strategies

- "Bunching"
  - Example: $30,000 every three years as opposed to $10,000 every year

Questions?

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