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Nonprofit *Insights*

A Newsletter for Nonprofit Decision-Makers Fall 2025

Legislative Update

How the New Tax Law Could Affect Charitable Giving

On July 4, President Donald Trump signed H.R. 1, the One Big Beautiful Bill Act (OBBBA), into law. The legislation extends and makes permanent many of the provisions of the Tax Cuts and Jobs Act (TCJA) of 2017 that were scheduled to expire at the end of this year while also addressing other tax priorities of the Trump administration.

The OBBBA contains several provisions that could impact charitable giving, which in turn could affect nonprofit organizations. Some of them take effect this year, which makes it critical to evaluate how they could impact your organization's finances and fundraising strategies.

Many experts believe that the legislation could be significant enough to alter charitable giving patterns once it takes full effect next year. Billions of dollars in charitable contributions may be riding on how donors respond to the law's restructuring of donation deductions and other provisions.

Potentially Reducing Nonprofit Resources

The changes come on the heels of cuts and freezes by the Trump administration to funding for some nonprofit organizations, along with reductions to Medicaid and the Supplemental Nutritional Assistance Program (SNAP) that could shift some of the burden for providing social services to nonprofits.

After the legislation was passed, the National Council of Nonprofits stated that the bill would ultimately reduce resources available to nonprofit organizations and negatively impact their ability to provide essential services to their local communities.

"At a time when nonprofit organizations face enormous financial challenges, these tax provisions will make it harder for organizations to fill gaps unmet by local, state, and federal governments and the private sector," stated the Council, which estimates that the bill will reduce nonprofit resources by at least $81 billion over the next 10 years.

Key Provisions Affecting Nonprofits

Some of the law's provisions will likely encourage individuals and cor-

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Functional Expense Allocation

How to Divide Expenses Among Nonprofit Functions

Nonprofit organizations are expected to devote a high percentage of their expenditures to accomplishing their stated mission. At the same time, however, nonprofits also need talented management and staff to administer operations and engage in effective fundraising.

The percentage of expenses devoted to mission-critical programs is a key factor considered by nonprofit rating agencies. This makes it critical for nonprofits to implement an effective functional expense allocation process to keep the public and press informed about how resources are being used to accomplish its mission.

Financial Accounting Standards Board (FASB) ASC Topic 958, *Not-for-Profit Entities*, requires nonprofits to present the relationship between functional (major classes of program services) and nonfunctional (salaries, rent, depreciation, and other overhead) expenses. Information about all of these expenses must be reported in a separate financial statement, on the face of the statement of activities, or as a schedule in the notes to financial statements.

Primary Expense Classifications

FASB defines functional expense classification as “a method of grouping expenses according to the purpose for which costs are incurred.” The primary functional expense classifications for nonprofit organizations are:

- **Program services —** These are the activities that result in goods and services being delivered in accordance with the organization’s mission. These goods and services are the major purpose and output of the organization.
- **Supporting activities —** These are activities other than the delivery of program services. Supporting activities typically include membership development, fundraising, cost of sales, and management and general activities (e.g., accounting, payroll, human resources).

According to the AICPA, direct identification of specific expenses (i.e., assigning expenses) is the preferred method for charging expenses to various functions. Expenses that can be tied to specific programs or supporting services should be assigned to those functions. For example, meals or travel expenses incurred while delivering program services should be assigned to those services.

Direct identification may not be possible or practical when expenses are associated with more than one program or activity. In this case, cost allocation is appropriate. Use a cost allocation methodology that is rational and systematic and results in reasonable allocation of costs. Then be sure to apply this methodology consistently over reporting periods that share similar facts and circumstances.

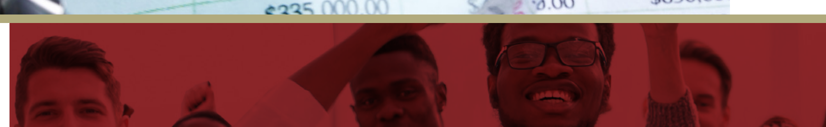
Optimize the Allocation Process

Here are five tips for optimizing your nonprofit’s functional expense allocation process:

1. **Choose the right expense allocation methodology.** Generally accepted accounting principles (GAAP) require nonprofits to disclose the method used to allocate expenses among program services and support activities. Be sure to use a methodology that is justifiable and document your reasoning to help prepare required disclosures and avoid comments from auditors.
2. **Allocate sufficient costs to program services.** Nonprofit organizations may fail to allocate sufficient costs to program services when employees spend time performing activities that are outside their normal job descriptions. For example, if HR or accounting staff are involved in delivering program services, some of their salaries should be allocated accordingly.
3. **Allocate sufficient salaries to fundraising.** Many nonprofits allocate an insufficient part of staff salaries to fundraising activities. If employees spend any time courting existing or potential new donors, a corresponding proportion of their salaries should be allocated to supporting activities.
4. **Allocate joint costs accurately.** Nonprofits often conduct activities, such as special events and direct mail campaigns, that have a shared programmatic and fundraising purpose. In this scenario, joint costs should be considered for allocation using the physical units, relative direct costs, or standalone allocation method.
5. **Verify that your allocation methodologies are being applied consistently.** Also be sure to update your methodologies to reflect any changes in your organization’s cost structure, operating facts, or circumstances, such as office space added or divested, staff positions added or removed, or significant programs started or discontinued.

Functional expense allocation requires careful consideration and professional judgement. You should work closely with your accounting professionals to ensure accuracy and avoid potential misstatement.

Contact our office to discuss functional expense allocation in more detail.



Legislative Update

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porations to make charitable donations while others will likely discourage charitable giving. Following is a closer look at how key provisions of the OBBBA could affect the nonprofit sector.

- **Higher standard deduction made permanent.** In 2025, the standard deduction increases by $1,000 for single filers to $15,750 and by $2,000 for married couples filing jointly to $31,500.
  Since the standard deduction was raised by the TCJA, the number of filers who itemize deductions has fallen to around 10%.
- **New charitable deduction for non-itemizers.** Beginning next year, the approximately 90% of taxpayers who don't itemize deductions will be able to claim a deduction of $1,000 for single filers or $2,000 for married couples filing jointly. This could help offset some of the negative effect on charitable donations potentially caused by the higher permanent standard deduction.
- **Higher SALT deduction cap.** The deduction for state and local taxes (SALT) has been increased from $10,000 to $40,000 for tax years 2025 through 2029. As a result, more taxpayers will have total deductions that exceed the standard deduction and could therefore benefit from itemizing. This, in turn, could incent these taxpayers to make higher charitable contributions. The Tax Foundation has estimated that the higher SALT deduction limit will increase the percentage of itemizers to over 14%.
- **Percentage of AGI deduction made permanent.** The ability for individuals to deduct cash gifts to public charities of up to 60% of their adjusted gross income (AGI) is now permanent, retaining the incentive for donors to make large cash contributions.
- **New deduction floors for individual and corporate donations.** Effective next year, itemizers will not be able to deduct charitable contributions below 0.5% of their AGI. For example, the deduction floor for an individual with $200,000 in AGI would be $1,000, which means a charitable contribution of $2,000 would yield a deduction of only $1,000. A similar deduction floor of 1% will also be implemented for corporate donations next year.
- **New deduction cap for high earners.** For taxpayers in the 37% tax bracket, charitable donation deductions will only be worth 35%, effective next year. For example, a $10,000 charitable donation will yield a deduction of $3,500, not $3,700. The National Council of Nonprofits states that this provision "will reduce the incentive for and amount of charitable giving. Floors and ceilings on charitable giving create artificial limitations on the incentive to give to charitable organizations."
- **New tax credit for donations to eligible Scholarship Granting Organizations (SGOs) that provide scholarships to eligible students.** Effective in 2027, individuals who support an eligible SGO can claim a $1,700 federal tax credit. This credit is available to both itemizers and non-itemizers. However, the credit is dependent on each respective state's election to participate in the program. The participating state must submit a list of qualifying SGOs to the Secretary of Treasurer in order for the tax credit to apply to the individual's donation.
- **Higher excise tax on college and university endowments.** An excise tax ranging from 1.4%-8% will be assessed on investment earnings from university endowments. Universities with student-adjusted endowments between $500,000 and $750,000 will pay the lowest rate of 1.4%, those with endowments between $750,000 and $2 million will pay a 4% excise tax, and those with endowments greater than $2 million will pay the highest rate of 8%.
- **Higher estate and gift tax exemptions made permanent.** The lifetime gift and estate tax exemption will be $13.99 million for single filers and $27.98 million for married couples filing jointly in 2025, rising to $15 million and $30 million, respectively, in 2026. The exemption will be indexed annually for inflation after next year.

Start Planning Now

The One Big Beautiful Bill Act presents both opportunities and challenges for nonprofit organizations. Now is the time to review your financial and fundraising strategies in light of the changes wrought by the legislation.

Give us a call if you have questions about how the new tax law could affect your nonprofit.

PSLF Program: A Powerful Nonprofit Recruiting Tool

Did you know that some of your nonprofit organization's employees might be eligible for forgiveness of the outstanding balance on their federal student loans?

Under the Public Service Loan Forgiveness (PSLF) program, which was created in 2007 under the College Cost Reduction and Access Act, borrowers who work full-time for qualifying nonprofit organizations and government agencies can have their outstanding student loan debt forgiven if they meet certain criteria.

The PSLF was created by Congress as an incentive to encourage college graduates to work in the nonprofit and government sectors, which typically pay less than the private sector. To qualify, employees must have worked full-time (at least 30 hours per week) for a least 10 years and made 120 monthly loan payments under a qualifying repayment plan. Any remaining balance on the employee's Federal Direct Student Loan may then be eligible for forgiveness, assuming the loan isn't in default.

Qualifying organizations include tax-exempt charitable 501(c)(3) organizations; federal, state, local, and tribal government agencies; and the AmeriCorps and Peace Corps (for full-time members).

New regulations that went into effect in 2023 have made the PSLF even more attractive. These rules count additional previous payments toward loan forgiveness, expand which types of loan payments qualify for forgiveness, and ease administration by allowing digital signatures by employers and employees.

Approximately 34 million Americans carry student loan debt, which makes PSLF a powerful recruiting and retention tool for nonprofit organizations — especially given the nonprofit workforce shortage. But many current and prospective employees are unaware of the program. Therefore, you should note your standing as a Public Service Loan Forgiveness certified employer in your job postings and promote PSLF among your staff.

Federal Student Aid has published a PSLF Help Tool at https://studentaid.gov/pslf/.