

Nonprofit Observer

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WINTER
2025

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3 ways the OBBBA could impact nonprofit operations

When the tax and spending law known as the One Big Beautiful Bill Act (OBBBA) was enacted in July 2025, nonprofits quickly took note of the potential implications for charitable giving. However, the law includes several provisions that could affect nonprofits' bottom lines in ways not directly related to donations. Here are three non-donation challenges that your organization should begin to prepare for.

1. Expanded excise taxes on compensation

The OBBBA makes essential changes to the excise tax on excessive compensation paid by tax-exempt organizations. Under current law, Section 4960 of the Internal Revenue Code imposes a 21% excise tax on annual compensation over \$1 million paid to a "covered employee," as well as on certain "parachute payments" made when an employee leaves the organization. A parachute payment arises when termination benefits equal or exceed three times the employee's average annual compensation for the prior five years. The tax applies to the excess over that average.

Starting in 2026, the OBBBA will expand the definition of covered employees dramatically. Any individual the nonprofit employed at any time after 2016 will now be considered a covered employee — even if they're no longer employed or among the organization's top earners. This broader definition will expose more executives and former employees to the 21% excise tax, increasing costs for many nonprofits. You should review your compensation and severance arrangements now to prepare for compliance.

2. Safety net cuts

The OBBBA features several provisions that will effectively pull back traditional safety net protections for the disadvantaged. For example, the law dramatically reduces the Medicaid funding that provides health care insurance for low-income Americans, including mental health and substance abuse treatment.

Among other things, the law imposes tighter eligibility requirements on recipients and caps

funding paid to health care facilities. Nonprofits that are federally qualified health centers are among the first that will feel the repercussions. Cuts to rural hospitals and community health funding are also expected.

These cuts are likely to have ripple effects beyond the health care sector. For example, individuals may



THE LATEST ON THE ERTC

In addition to addressing a long list of areas relevant to any business, the One Big Beautiful Bill Act (OBBBA) tackles ongoing issues around the COVID-era employee retention tax credit (ERTC). Some nonprofits may have filed claims for this potentially lucrative refundable tax credit.

Because the IRS has been inundated with illegitimate claims since 2023, the new law prohibits the tax agency from processing certain unpaid ERTC claims that were filed after January 31, 2024. This means nonprofits may not receive expected refunds for claims tied to wages paid between July 1 and September 30, 2021, if those refunds would have been processed after OBBBA's enactment on July 4, 2025.

Notably, the OBBBA also extends the statute of limitations for IRS audits of ERTC claims for the third and fourth quarters of 2021. The statute of limitations changes from six years from when claims were filed or April 15, 2028, whichever is later.

have less money for food, shelter and other necessities because their out-of-pocket health care costs are rising. In addition, the OBBBA slashes the Supplemental Nutrition Assistance Program over the next decade. This, too, could lead to a significant uptick in financial insecurity.

Many nonprofits will need to make significant adjustments to stay afloat and continue serving their constituencies

Such safety net tightening is likely to lead to rising demand for social services. Social service nonprofits, meanwhile, will probably face their own hefty federal funding cuts. If your organization operates in this arena, you must develop strategies to fill the funding gaps. Consider revising your fundraising materials to educate potential donors about the OBBBA's consequences for those in need and the vital role your organization plays in helping them.

3. Accelerated expiration of clean energy tax incentives

Nonprofits in the climate change and sustainability space, or those that have planned to take advantage of direct-pay clean energy tax credits under the Inflation Reduction Act, should note the OBBBA's rollback of many clean energy tax incentives. The law's targets include credits related to wind and solar projects, and deductions for energy-efficient commercial buildings.

The OBBBA primarily accomplishes its rollback by modifying eligibility criteria and moving up deadlines. Affected nonprofits need to promptly investigate changes made to the specific provisions under which they hope to benefit. You may need to expedite plans to leverage clean energy credits before they expire or your organization becomes ineligible to use them.

Act now

The OBBBA is sweeping legislation, and many nonprofits will need to make significant adjustments to stay afloat and continue serving their constituencies. We can help you navigate the new waters. ●

Short on talent? Consider a returnship

In today's tight job market, employers must innovate when it comes to filling positions. A growing number of for-profit businesses — including such big names as Walmart, Amazon, Goldman Sachs and JP Morgan Chase & Co. — have found success with returnship programs. These arrangements also could provide welcome and valuable relief for nonprofits facing hiring challenges.

Returnship defined

The name may not be familiar, but a returnship isn't much different from an internship. The main difference is that, instead of bringing on board almost total novices, your nonprofit can obtain access to experienced individuals.

Basically, returnships target workers who've taken a career break. The pool ranges from early retirees, who find they need or want to return to work, to professionals who took time off to travel the globe. Frequently, returnships involve individuals who left the workforce to serve as caregivers for children or elderly parents. For this reason, returnship programs aren't restricted to older workers. Applicants with an employment gap often are overlooked for no other reason. But your organization may not have the luxury of overlooking any job candidate these days.

During returnships, returnees, like interns, are typically given mentors to offer guidance and support as they're upskilled and groomed for full-time positions that may require skills they don't yet possess. You may also want to provide returnees with opportunities to interact with your organization's leaders.

Returnships are an emerging way to tap into workers with proven — but perhaps not fully current — skills and a strong drive to contribute

Benefits you can expect

Returnships are an emerging way to tap into workers with proven — but perhaps not fully current — skills and a strong drive to contribute. They also support workplace inclusivity by welcoming individuals with diverse perspectives and backgrounds. Just as significantly, returnships can counteract biases that hiring managers may hold, for example, assuming that candidates re-entering the workforce may lack essential computing skills.

In reality, many returnees bring highly relevant strengths in social media, online research, peer collaboration and time management. Often, they apply these skills for years through sports leagues, community volunteer work or their children's schools. Regardless of whether they were paid in such roles, good returnee candidates have consistently built and sharpened both hard and soft skills.

Potential risks you can expect

Seasoned professionals may find it challenging to begin in lower-level roles where they report to managers who are younger or less experienced. Although



many workplaces know how to bridge generational differences, tensions can arise if returnees expect greater respect or deference based on their accomplishments from prior, unrelated careers.

Another potential hurdle is compensation. Some returnees may struggle with the smaller paychecks typical of returnships. Ideally, they'll recognize the tradeoff: reduced earnings in exchange for the chance to refresh skills and boost long-term employability. Even so, it's wise to discuss these expectations during the interview process.

Also keep in mind that returnships are temporary by design, usually lasting three to six months. If a

participant isn't the right fit, you have no obligation to extend a full-time offer. Make sure this is clear from the start.

Making a connection

Both nonprofit and for-profit organizations have become available as returnship resources, to connect employers who need experience with workers who have large gaps on their resumes. These organizations not only help determine whether returnships are a good fit for your workplace but they also assist in identifying candidates who bring the right experience and potential. ●

Are corporate sponsorships right for your nonprofit?

For many nonprofits, corporate funding can be a lifeline during periods of economic uncertainty. However, your nonprofit needs to take care when soliciting and negotiating such arrangements. Sometimes they can lead to an unexpected tax bill.

Understanding payments

According to the Internal Revenue Code, qualified sponsorship payments aren't subject to unrelated business income tax (UBIT). These payments from businesses may be in the form of cash or property, but there can't be any expectation that the business sponsor will receive a substantial return benefit.

What qualifies as a substantial return benefit? It generally refers to anything more than a simple acknowledgement of the sponsor's support.

Examples of benefits include advertising and promotional messages, privileged access to members, or goods, as well as the right to use the nonprofit's trademark or logo, or exclusive provider arrangements (such as limiting access to competitors' products).

Sponsored activities may include:

- A single event,
- A series of related events,
- An ongoing activity, or
- Continuing support of a nonprofit's operation.

A qualified sponsorship payment doesn't have to relate to the organization's exempt purpose. If you agree with a certain company that it'll be your

exclusive sponsor, that's not a problem. However, problems can arise if you restrict access to the sponsor's competitors, such as by barring competing products from being sold or displayed at your event. That would result in a substantial return benefit, which, in turn, could trigger UBIT.

Determining what isn't a payment

When a sponsor receives a substantial return benefit, only the portion of the payment that exceeds the fair market value (FMV) of that benefit is considered a qualified sponsorship payment. If you can't determine that the payment exceeds the FMV, then no portion of the payment constitutes a qualified sponsorship payment.



Payments don't qualify if they're contingent on the degree of public exposure, such as event attendance, broadcast ratings, or similar factors. They also don't qualify if they entitle the sponsor to have its name or logo used in the organization's regularly scheduled and printed periodicals, such as magazines or e-newsletters, rather than materials created for an event. And they don't qualify if they're connected to convention or trade show activities.

Payments that are partly qualified will be treated by the IRS as if separate payments were made.

Any income received in exchange for such sponsor benefits is generally subject to UBIT.

Line between advertising and acknowledging

According to the IRS, a primary issue is distinguishing qualified sponsorship payments and the related acknowledgment of sponsors from the sale of advertising. Advertising is defined as any transmitted, published, displayed or distributed message or programming material that promotes or markets a business, service, facility or product. On the other hand, an acknowledgment is intended only to identify the sponsor — not promote its products, services or facilities.

Acknowledgments don't have to be bare bones. They can include the sponsor's logo, slogans, brand or trade names; locations and phone numbers; product service listings; and value-neutral descriptions of its product line or services. An acknowledgment can also include a sponsor's website URL. It can link to the website's home page, but not to the page for a particular product or service. When crafting an acknowledgment, avoid comparative or qualitative descriptions — for example, "the best software for nonprofits." The IRS considers a message that includes comparative or qualitative language *and* an acknowledgment to be advertising.

Finally, your acknowledgments shouldn't include price information, indications of savings or value, or inducements to buy, sell or use the sponsor's products or services. But mere display or distribution of a sponsor's product at a sponsored activity isn't considered to be such an inducement.

Get it right

A well-executed corporate sponsorship can benefit both the nonprofit that receives funding and the sponsor that receives valuable branding opportunities. But if it's not done right, your organization could end up owing UBIT. Contact us to help you navigate the process. ●

Guard your nonprofit's tax-exempt status

Preserving your organization's tax-exempt status is vital to your financial stability and ability to pursue your mission. Losing that exemption could result in tax liability, fewer donations and lost foundation grant eligibility. To avoid this, you must understand 501(c)(3) rules and commit to strong governance.

5 core commitments

The IRS grants 501(c)(3) status in exchange for certain commitments. Eligible organizations must:

- 1. Avoid private benefit and inurement.** The IRS strictly prohibits insiders — such as board members, officers, or key employees — from personally benefiting from the organization's income or assets. Even seemingly small perks can raise red flags. Compensation should be reasonable, well-documented and based on comparable data. Nonprofits should implement conflict-of-interest policies and maintain transparent records.
- 2. Manage lobbying activities.** Nonprofits may engage in lobbying, but it must remain “insubstantial.” Lobbying includes urging lawmakers and the public to support or oppose legislation. To protect your status, track lobbying expenditures carefully.
- 3. Remain nonpartisan.** A 501(c)(3) organization can't support or oppose candidates for public office (known as political activity) in everything from newsletters to social media to in-person speeches, though recent interpretations of current law are questioning this. Nonpartisan voter engagement, such as registration drives, open forums or neutral issue education, is permissible.
- 4. Monitor unrelated business income.** Revenue from activities not substantially related to a non-profit's exempt purpose may be considered Unrelated Business Income (UBI). Earning some UBI is acceptable, but excessive reliance on it can jeopardize your tax-exempt status. Talk to a

tax advisor when exploring potential earned-income strategies.

5. File annual returns. Failure to file a version of IRS Form 990 for three consecutive years leads to the automatic revocation of a nonprofit's tax-exempt status. Reinstatement can be time-consuming and costly and could jeopardize an organization's relationship with donors and regulators. Your board should assign responsibility for timely filings to specific individuals and create compliance calendars to stay on track.

Possible consequences

If your tax-exemption is revoked, you'll likely need to pay federal corporate income tax. You will also lose state-level tax privileges and no longer be able to accept tax-deductible donations. In short, losing your tax-exempt status is an existential threat. To avoid that fate:

- Educate leadership and staff about compliance responsibilities,
- Document decisions and financial practices to demonstrate transparency,
- Use checklists and compliance guides to monitor lobbying, political activity and reporting obligations, and
- Seek professional advice when exploring new revenue models.



By focusing on these principles, your nonprofit can remain compliant and retain the trust of donors and other supporters.

Going forward

Protecting your tax-exempt status isn't just about following the law. It's about safeguarding the integrity and future of your organization. ●