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Tax-Exempt Organizations: A 2025 Year in Review

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One Big Beautiful Bill Act (OBBBA) Overview

Key OBBBA Provisions Affecting Nonprofits

- 60% AGI limit for cash gifts is now permanent
- New above the line deduction for charitable contributions
 - \$2,000 for MFJ/\$1,000 for Single and MFS
- New 0.5% “floor” before itemizing charitable contributions
 - Floor is 1.0% for corporations
- New “haircut” (the 2/37ths rule) that limits the tax-savings of large charitable contributions to an effective marginal rate of 35%
 - Only applies if taxable income exceeds the start of the 37% bracket

Key OBBBA Provisions Affecting Nonprofits (cont.)

- New exclusion for qualified overtime pay
 - IRS has published a [fact sheet](#) regarding qualified overtime pay
- New exclusion for qualified tip income
 - Only applies to “Occupations that customarily and regularly received tips on or before December 31, 2024.” See Treas. Reg. § 1.224-1

Key Point: Qualified overtime pay and qualified tip income were not required to be reported on the 2025 Form W-2s

Key OBBBA Provisions Affecting Nonprofits (cont.)

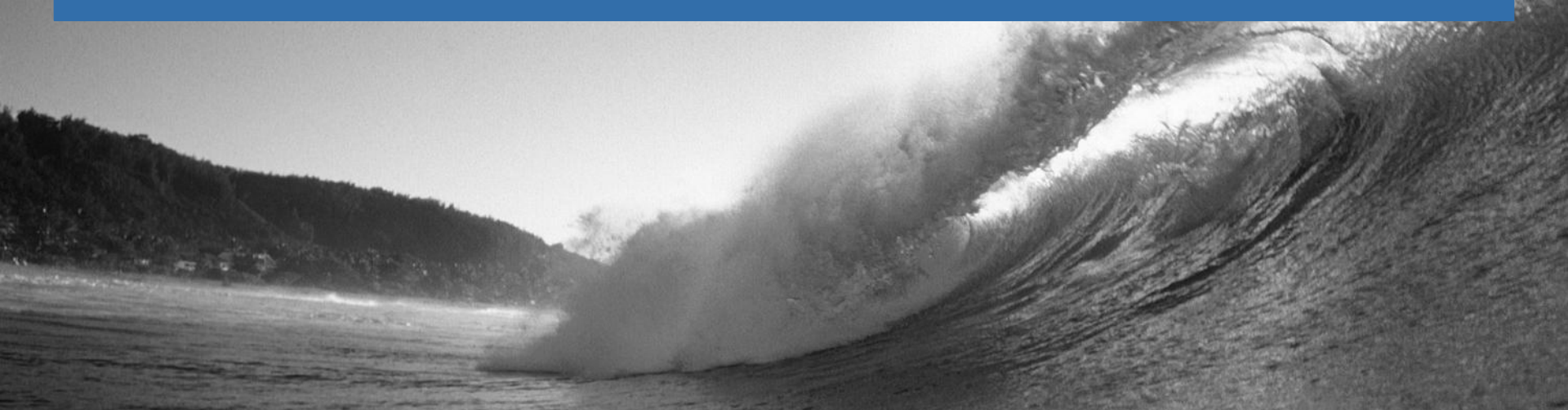
- Expansion of 529 plan uses
 - Primarily in the K-12 space, but in the post-secondary space, 529 plan funds can now be used for credentialing program costs (including tuition, books, supplies, testing fees), and professional continuing education fees
- The \$5,250 Educational Assistance Plan limit indexed for inflation beginning in 2027

Key OBBBA Provisions Affecting Nonprofits (cont.)

- New \$1,700 federal tax credit for gifts to “scholarship granting organizations” (SGOs)
 - An SGO must be recognized by the state
 - Federal credit must be reduced by any state credit allowed
 - Can claim the credit or a charitable income tax deduction, not both
 - Effective beginning in 2027

Key OBBBA Provisions Affecting Nonprofits (cont.)

- IRC § 4960 excise tax on excess nonprofit executive compensation expanded to include *any* employee making in excess of \$1,000,000
 - Previously only applied to top 5 highest compensated employees making more than \$1,000,000
 - Certain medial professionals and clergy remain exempt



Group Exemptions under Rev. Proc. 2026-6

Group Exemptions under new Rev. Proc. 2026-6

- New and Enhanced Requirements in the following areas (with citations):
 - **NEW** electronic application process 6.02
 - **NEW** minimum number of subordinates requirement 4.01(2)
 - **NEW** maximum number of group exemption letters 4.01(3)
 - **ENHANCED** affiliation and supervision/control requirement 4.02(1)
 - **NEW** uniform purpose statement requirement 4.03(2)(b)
 - **ENHANCED** supplemental group ruling information (SGRI) reporting requirements 7.02

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Electronic Application Process
 - Group Exemption Applications must now be submitted via Pay.gov
 - User fee: \$3,500
 - Central Organization info (Name, address, EIN)
 - Note: a central organization can request recognition of its own exempt status concurrently with the group exemption application
 - Specific subordinate organization information

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Electronic Application Process
 - Subordinate organization info
 - Name, address, EIN, date of formation
 - Representation that each subordinate is affiliated with the central organization and subject to the central organization's supervision and control
 - Representation that the subordinate organizations are all described in the same paragraph of § 501(c)
 - The paragraph of § 501(c) under which the subordinate organizations are described
 - Representation that no subordinate organizations are organized under the laws of a foreign country
 - If described under § 501(c)(3), a representation that no subordinate organization is a private foundation or a Type III supporting organization
 - Representation that no subordinate is a qualified nonprofit health insurance issuer under § 501(c)(29)
 - Representation that no subordinate has had its exempt status automatically revoked

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Electronic Application Process
 - Subordinate organization info
 - If § 501(c)(3) and a public charity, the paragraphs of § 509(a) and § 170(b)(1)(A) under which they are classified
 - Representation regarding the uniform purpose statement
 - The text of the uniform purpose statement
 - Detailed description of each subordinate's purpose and activities
 - Representation that each subordinate has given authorization
 - Representation that all subordinates meet the 27-month rule
 - Representation that all subordinates included in the group return are on the same accounting period as the central organization
 - Other additional information for private schools, charitable hospitals, social welfare organizations

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- **Minimum number of subordinates**
 - Central organization must have at least five subordinates to obtain a group exemption
 - Then, it must have at least one subordinate to maintain the group exemption
- **Maximum number of group exemption letters**
 - Central organizations may only maintain one group exemption letter

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Affiliation and Supervision/Control Requirements
 - ***Affiliation***: demonstrated by facts and circumstances showing that it is a chapter, local, post or unit of the Central Organization.
 - Shown through inclusion in a group return, a directory of subordinate organizations updated annually by the central organization, sharing of common religious bonds or convictions with Central Organization (if a church or a convention or association of churches)

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Affiliation and Supervision/Control Requirements
 - **General supervision** is demonstrated if the Central Organization
 - Annually obtains, reviews, and retains info on the subordinate's finances, activities, and compliance with annual filing requirements
 - Annually transmits written materials to and/or educates, informs the subordinates about how to maintain tax-exempt status including the annual filing requirements (e.g. IRS Publication 557 or Publication 1828)
 - Note: The first prong can be fulfilled through obtaining the 990 or 990-EZ (990N does not suffice). If the Subordinate is not required to file the Form 990, a Central Organization is not required to fulfill this requirement.

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Affiliation and Supervision/Control Requirements
 - **Control** is demonstrated if the Central Organization
 - Central appoints a majority of the Subordinates' board of directors
 - Central appoints a majority of the Subordinates' officers
 - Central and Subordinates have a majority of shared board members
 - Central and Subordinates have a majority of shared officers
 - The existence of a written agreement is an alternative path to control (e.g. approval of directors, right to removal, management agreement)

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Uniform Purpose Statement Requirement
 - If Subordinate organizations have the same exempt purpose, they must have a uniform purpose statement in their governing documents
 - Note: different organizations must share the same purpose statement (schools with schools, hospitals with hospitals, etc.)
 - Note: pre-existing organizations do not need to amend their governing instruments to conform to this

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Supplemental group ruling information (SGRI) reporting
 - All changes in purpose, character, or method of operations of all subordinate organizations
 - List of certain changes
 - Changes in Subordinate address
 - Subordinates no longer included in the group exemption
 - Subordinates whose exempt status has been auto-revoked
 - Subordinates that are being added

Group Exemptions under new Rev. Proc. 2026-6 (continued)

- Supplemental group ruling information (SGRI) reporting
 - Required information
 - Must include the name, mailing address, and EIN for each subordinate organization that is in the list
 - **EXCEPTION** for churches or conventions or associations of churches
 - A central organization that is a church, convention, or association of churches and maintains a group exemption letter is not required to submit the information



Notable Court Cases

Catholic Charities Bureau, Inc., 605 U.S. 238 (2025) (Sotomayor, J., unanimous)

- Catholic Charities Bureau was denied exemption from Wisconsin's unemployment tax
- The Court reversed the Wisconsin Supreme Court, finding that Wisconsin imposed an impermissible denominational preference by conditioning the exemption on inherently theological choices—in this case whether to proselytize or only serve co-religionists

Drummond v. Oklahoma Statewide Virtual Charter School Board, 605 U.S. 165 (2025)

- An equally divided Court (Justice Barrett recused herself) allowed the Oklahoma Supreme Court's ruling in Drummond v. Oklahoma Statewide Virtual Charter School Board, 2024 OK 53 to stand
- The Oklahoma Supreme Court found that a Catholic school's charter school contract with the State of Oklahoma violated the state constitution's prohibition on using public funds for the benefit of sectarian institutions
- The court also found the contract violated the Establishment Clause

National Religious Broadcasters v. Commissioner, DC - Docket No. 6:24-cv-00311(E.D. TX)

- National Religious Broadcasters and two Texas churches sued the IRS seeking an injunction to the application of the Johnson amendment to political speech
- In an unusual move, the IRS and the plaintiffs submitted a joint motion that would
“enjoin [the IRS] as well as their successors, agents, and employees, from enforcing the Johnson Amendment against Plaintiff Churches based on speech by a house of worship to its congregation in connection with religious services through its customary channels of communication on matters of faith, concerning electoral politics viewed through the lens of religious faith”

National Religious Broadcasters v. Commissioner, DC (continued) Docket No. 6:24-cv-00311 (E.D. TX)

- The key framing assertion in this case is that
“Bona fide communications internal to a house of worship, between the house of worship and its congregation, in connection with religious services, do [not ‘participate’ nor ‘intervene’], **any more than does a family discussion concerning candidates**. Thus, communications from a house of worship to its congregation in connection with religious services through its usual channels of communication on matters of faith do not run afoul of the Johnson Amendment as properly interpreted.”
- Numerous amici briefs have been filed in this case
- If the joint motion is adopted by the court, what will its impact be on other churches?

Freedom Path, Inc. v. IRS, 805 F. Supp. 3d 329 (D.D.C. 2025)

- Court found the IRS's standards for 501(c)(4) political activity were unconstitutionally vague
- 1959 IRS regulations allowed (c)(4)s to promote “social welfare” but not political campaign activity
- Revenue Rulings in 1967 and 1981 opened the door to some political activity if social welfare was primary; 2004 and 2007 rulings identified 7–11 factors to weigh; 2015 IRS Commissioner stated the standard was 49%
- Court granted summary judgment: the lack of clear guidance on what “primarily” means rendered the regulations unconstitutionally vague
- Court denied summary judgment to both parties and asked for new filings with an appropriate standard for adjudicating Freedom Path's exempt status

American Alliance for Equal Rights v. Raoul, 795 F. Supp. 3d 1073 (N.D. Ill. 2025)

- Challenge to Illinois SB 2930 (effective Jan. 1, 2025), which requires nonprofit boards awarding grants of \$1M+ to collect and publish aggregated demographic data on directors and officers
- AAER (founded by Edward Blum, founder of SFFA) sued alleging:
 - 14A Equal Protection: pressures boards to discriminate in choosing members
 - 1A: compels and regulates noncommercial speech
- Court denied standing and dismissed as to publication but upheld standing with regard to collection
- But all arguments for preliminary injunction regarded publication not collection and so denied
- DOJ intervened March 4, 2025, but court dismissed for lack of standing
- Case currently on appeal before the 7th Circuit | Case No. 25 CV 00669

First Choice Women's Resource Ctrs. v. Platkin, 2024 WL 5088105 (3d Cir. Dec. 12, 2024), *cert. granted* 145 S. Ct. 2793 (June 16, 2025)

- First Choice, a nonprofit crisis pregnancy center, was served with NJ AG subpoena seeking documents
- First Choice refused to comply and sought relief in federal court
- Federal courts held claims unripe because state sanctions not yet imposed
- **Cert granted, oral arguments held, pending SCOTUS decision**
 - Issue: When the subject of a state investigatory demand establishes a reasonably objective chill of its First Amendment rights, is a federal court in a first-filed action deprived of jurisdiction because those rights must be adjudicated in state court?
 - Argued before the Supreme Court on December 2, 2025
 - Decision not yet announced



IRS Rulings

Round up of IRS nonprecedential guidance

- PLR 202451009 –IRS ruled that activities of disregarded entities of a taxpayer are charitable and educational
- CCA 202504014–IRS found private benefit, self-dealing, and jeopardizing investments in loans and promissory notes
- PLR 202514006–The IRS denied church status to an organization. The letter redacted all of the details, so it's not possible to know how this organization failed the organizational test.

Round up of IRS nonprecedential guidance (cont.)

- CCA 202515014—IRS ruled that elective deferrals to a 403(b) plan and salary deductions under a section 125 plan are not includible in wages subject to IRC § 4960's excise tax on remuneration in excess of \$1,000,000.
- PLR 202526015—Church school not required to file IRS Form 990



Political Campaign Intervention

New Way Christian Fellowship, Inc.

- In June 2024, the IRS initiated a political campaign intervention inquire against New Christian Fellowship, Inc. of Palm Coast, Florida after receiving a report that a local school board candidate spoke at a church service
- In March 2025, the IRS concluded its inquiry issuing the church a letter affirming its continued tax-exempt status



Other IRS Guidance

New Audit Technical Guides Published

- [TG 3-8: Disqualifying and Non-Exempt Activities, Inurement and Private Benefit - IRC Section 501\(c\)](#)
- [TG 3-27: IRC Section 501\(c\)\(3\) Foundation Classification - Other Public Charities - IRC Sections 509\(a\)\(1\) and 170\(b\)\(1\)\(A\)\(iv\), \(v\), \(ix\) and Section 509\(a\)\(4\)](#)
- [TG 70: Charitable Trusts](#)

2025–2026 IRS Priority Guidance Plan

- **IRS Priority Guidance Plan Released October 2025 – Two 501(c)(3) priorities:**
- **Issue 1: Racial Discrimination & Private Schools**
 - Guidance on the fundamental public policy against racial discrimination in determining tax-exempt eligibility for private schools
 - Likely intended to implement the administration’s focus on ending DEI programs
- **Issue 2: Johnson Amendment & Political Campaign Activity**
 - Guidance on the §501(c)(3) prohibition against participation in political campaigns; IRS asked an E.D. Tex. court to enjoin enforcement against plaintiff churches – would allow religious leaders to make partisan comments at official functions without risk to tax-exempt status



State Legislation

California AB 1318

- California historically recognized state exemption based on federal exempt status
- New law:
 - decouples California's recognition of tax-exempt status from federal 501(c)(3)
 - adds a state definition: organizations meeting either the federal or state standard receive exemption
- Enacted to preempt perceived federal targeting of nonprofits by the Administration

Indiana HB 1004

- Targets nonprofit hospital health care costs
- Requires nonprofit hospitals to submit audited financial statements to the state
- State will determine average inpatient and outpatient costs across Indiana
- Any nonprofit hospital exceeding those averages after June 2029 will lose its nonprofit status

Rhode Island H6235

- Nonprofit grantees of state funds > \$50K must disclose total compensation of five highest compensated employees (making over \$100K)
- Mirrors Form 990 disclosures
- Greater transparency or left populist spite?

Montana SB 134 “Safeguarding Endowments Gift Act”

- Allows donor standing for violations of donor-imposed restrictions for endowment funds governed by agreement
- Legal representative can file suit within 3 years of discovery of a violation
- Remedies limited to those consistent with original charitable purpose
- Allows for judicial declaration of donor’s endowment agreement’s terms
- Five states have adopted (IA, KS, GA, KY, and now MT)

Ohio HB 540

- Would impose a 2.5% PILOT on the taxable value of land owned by 501(c)(3) organizations
- Funds divided among taxing authorities within same geographic area
- Applies only to property
 - Owned by a 501(c)(3) organization
 - Currently exempt from tax
 - Of more than 15,000 acres in a single county
- Bill introduced; status pending



State Attorney General Actions

OpenAI Restructuring

- OpenAI proposed a restructuring and recapitalization
- California and Delaware AGs reviewed and investigated
- After extensive negotiations with CA AG, OpenAI agreed to concessions:
 - Ensuring charitable assets will be used for their intended purpose
 - Safety will be prioritized
 - OpenAI will remain right here in California
- CA and DE AGs don't oppose OpenAI's recapitalization plan, under which:
 - OpenAI became OpenAI Foundation
 - Its for-profit "capped-profit" LLC subsidiary became a PBC named OpenAI Group PBC

Texas AG – Nonprofits Serving Immigrants

- TX AG investigating whether a dozen nonprofits, including Jolt Initiative and Annunciation House, serving immigrants are breaking the law by harboring or registering nonresidents to vote
- TX AG sought nonprofits records and nonprofits sued to block the AG's attempt
- Both Texas and federal courts upheld the AG's statutory authority to demand a company's internal records and to seek corporate dissolution under quo warranto, e.g., *Paxton v. Annunciation House*, 719 S.W.3d 555 (Tex. 2025).

Ohio AG – Bar Association Fraud

- Ohio AG sued the former Executive Director of the Cambria County Bar Association for diverting \$300,000 from the organization
- Funds diverted to a nonprofit founded by her family and to personal expenses
- Investigation triggered by an overdraft notice from a bank revealing suspected overpayments, and investigators determined the ED had no other income sources to fund the personal expenditures
- ED pleaded guilty and was sentenced to two to four years in prison and to pay restitution

Minnesota AG – Mayo Clinic Settlement

- **Minnesota AG Settlement with Mayo Clinic**
 - AG investigated Mayo Clinic for suing patients for medical debt who may have qualified for charity care
 - Mayo Clinic, as a nonprofit hospital, must provide some community benefit, often achieved through free or discounted services to those unable to pay
 - Under Minnesota state-wide Hospital Agreement, Mayo should have provided more opportunities for patients to apply for charity care
- **Settlement terms:**
 - Free care for patients with incomes up to 200% of the federal poverty line
 - Discount of 40–50% for patients with incomes up to 400% of the federal poverty line
 - Exercise certain presumptions of eligibility and streamline application process
 - Mayo Clinic CFO must approve before suing any patients

Minnesota AG – Give Hope Nonprofit Dissolved

- **Minnesota AG Settlement – Multiple Governance Violations**
 - Nonprofit's owners also operated multiple for-profit restaurants
 - Used the nonprofit to reimburse the for-profit restaurants for food and toiletries during COVID-19 – conflicting transactions not in accordance with state law
- **Governance failures:**
 - Failed to maintain adequate books and financial records
 - Board met infrequently and did not have a designated treasurer
 - Failed to maintain tax-exempt status and registration with the state AG's office
 - Note: See also the Feeding Our Future cases – many convictions in 2025



Recent Board & Leadership Scandals

Newman's Own Foundation

- Board of the Newman's Own Foundation battled with daughters of the deceased founder
- Issues included:
 - Management self-dealing
 - Management harassment
 - Blocking daughters from participating per Newman's intention
 - Improper use of Newman's NIL on nonfood items
- Undisclosed settlement reached in March 2025

New Heights Community Resource Center

- **Missouri Nonprofit – Executive Director Convicted**
 - Following a three-day trial, a Missouri jury found the executive director guilty of stealing \$4.3 million between 2019 and 2022
 - The nonprofit was dedicated to feeding vulnerable children
 - Funds used to purchase high-end vehicles and real estate
 - \$1.4 million gifted to a romantic partner

San Francisco Parks Alliance

- **Board Chair Disclosed \$3.8 Million Misspent in Restricted Funds**
 - Board chair told a donor the organization had used restricted funds to cover operating costs
 - Leaked email described the situation as a “dumpster fire”
 - No evidence of personal use of funds alleged
 - Organization appears to have lacked a system to track expenditures and reimbursements from the city
 - Both the City Attorney and San Francisco District Attorney are investigating

Collective Impact (San Francisco)

- **Conflict of Interest – Grants Tied to Personal Relationship**
 - San Francisco nonprofit received six city grants worth millions from the Human Rights Commission
 - The nonprofit's head was living with a senior Commission employee at the time
 - That Commission employee had previously worked at the nonprofit, remained a signatory on its bank account, and carried a corporate credit card
 - The nonprofit also reimbursed its leader for thousands of dollars in software subscriptions while she was working for the city

Baltimore Charity and Youth Fund

- **Excessive Administrative Spending & Consulting Fees**
 - Nonprofit almost exclusively funded by the City of Baltimore
 - Allegedly spent 40% of its budget on administrative costs
 - \$10 million spent on consulting fees since 2020
 - \$200,000 went to a firm run by a friend of the Fund's president
 - \$400,000 in consulting fees went to a firm headed by a former employee of the Fund

Truckee Meadows Parks Foundation


- **Reno, Nevada Nonprofit – Abrupt Shutdown**
 - TMPF shut down abruptly after “severe financial mismanagement” by the executive director was discovered
 - Questions raised about how the board failed to discover the issue until it was too late
 - City of Reno confirmed the dissolution and took over key services

Questions?




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