

ONE BIG BEAUTIFUL BILL ACT: NOTABLE TAX CHANGES FOR ORGANIZATIONS AND INDIVIDUALS IN THE HEALTH CARE SECTOR

On July 4, 2025, President Trump signed into law a major budget reconciliation measure known as the "One Big Beautiful Bill Act" ("OBBBA"). Enactment of OBBBA answers several months of speculation regarding how Congress would implement key elements of the Administration's legislative agenda.

OBBBA will have broad implications for the nation as a whole. Much of the public attention has centered on certain high-profile provisions, such as extending or making permanent several provisions from the 2017 Tax Cuts and Jobs Act, enacting significant reforms to Medicaid, Medicare and the Affordable Care Act, addressing the debt ceiling, and adding substantial funding for border security and enforcement. From a tax perspective, OBBBA is expected to deliver approximately \$4.5 trillion in net tax cuts over the next decade, according to preliminary estimates from the Joint Committee on Taxation.

Meanwhile, OBBBA includes a range of lesser-discussed, but impactful tax provisions. Below is a summary of select provisions from OBBBA that may be of interest to organizations and individuals in the health care sector.

KEY TAX PROVISIONS UNDER OBBBA

A. Executive Compensation Excise Tax - Code Section 4960

Currently, under Section 4960 of the Internal Revenue Code of 1986, as amended, certain tax-exempt organizations are subject to a 21% excise tax on compensation exceeding \$1 million paid to a "covered employee," and certain severance payments depending on the amount. Under the existing definition, "covered employee" captures only the top five highest-paid employees in a given year, and anyone who was previously top five (going back to 2017).

The OBBBA expands this definition to include **any** current or historic employee earning over \$1 million, regardless of whether they were ever in the top five highest-paid. This change dramatically raises excise tax exposure for highly paid staff in tax-exempt hospitals and health systems, which should prompt organizations to review and potentially reevaluate their executive compensation philosophy and restructure compensation arrangements.

B. Changes to Charitable Contribution Deductions

OBBBA imposes several changes to the requirements for charitable contributions by individuals and corporations, including the following:

- A 1% floor on corporate charitable contribution deductions.
- A 0.5% floor on individual charitable contribution deductions.

As a result, in order to claim a deduction, individuals and corporations must make donations in an applicable tax year that exceed the floor. This provision could potentially decrease incentives to make charitable contributions. However, coupled with certain maximum contribution limits and contribution deduction carryover rules, it may instead encourage more consistent giving to exempt organizations through multi-year strategies. Development teams should engage with individual and corporate donors to help them comply and preserve deductibility.

C. Opportunity Zone Changes

OBBBA makes the "Opportunity Zone" tax benefits permanent and creates a new round of "Strategic Opportunity Zones." Although the new program does not begin until 2027 (and qualifying areas have not yet been identified), the program will include rural and underserved areas, and it will continue to provide enhanced tax deferral opportunities (i.e., deferral of capital gains tax and increased step-up in basis).

This change creates a long-term opportunity for hospitals and health systems—especially those in rural areas—to attract investment for projects within those areas. In anticipation of this new round, health organizations may wish to inquire further into this opportunity.

D. Expanded Capital Gains Exclusion for Qualified Small Business Stock

OBBBA updates the rules for Qualified Small Business Stock ("QSBS") for stock issued after July 4, 2025. Investors can now exclude 50% of their gain if they hold the stock for three years (reduced from five years), 75% after four years and 100% after five years. OBBBA also raises the limit on company size from \$50 million to \$75 million in assets and increases the gain exclusion cap from \$10 million to \$15 million (or 10x what the investor paid), with both limits indexed for inflation over time.

Although the performance of health services is prohibited from QSBS tax treatment, corporations engaging in health-adjacent activities (i.e., creation of medical products) may still qualify, depending on the facts and circumstances and future IRS guidance. With higher gain exclusions and shorter holding periods, these C corporations may become more attractive targets of private equity investment.

This also matters for nonprofit hospitals and universities that help launch taxable startups or joint ventures. Qualifying C corporations formed by these organizations can now offer more attractive tax benefits to investors. Planning ahead for stock issuance timing, ownership structure and holding periods will be key to maximizing these incentives.

E. State and Local Tax Cap Temporary Increase from \$10,000 to \$40,000

OBBBA raises the State and Local Tax ("SALT") deduction cap from \$10,000 to \$40,000 starting in 2025, but only for people with income under \$500,000. The increased limitation phases out by 30% of the excess of modified adjusted gross income ("AGI") above \$500,000, but cannot drop below the previous \$10,000 allowance. The SALT cap and phaseout threshold are split for married taxpayers filing separately and will increase by 1% annually through tax year 2029. This expanded cap applies for five years (2025-2029), then drops back to \$10,000 in 2030.

The phaseout makes AGI key. For example, if your AGI is \$550,000, you lose \$15,000 of the benefit, leaving you with a \$25,000 deduction.

This may increase personal tax savings for executives and donors, especially in high-tax states, if they manage AGI carefully.

Larger employers can help employees lower AGI through pre-tax retirement plans. Small business owners may benefit from retirement plans like cash balance or defined benefit plans that reduce income and unlock the full deduction.

Note: The federal deduction for pass-through entity tax (state taxes paid at the entity level) is unchanged and continues to provide another method of deducting SALT.

PRACTICAL PLANNING CONSIDERATIONS

The following considerations may help individuals and organizations, particularly exempt organizations in the health care sector, respond to OBBBA's provisions identified above:

A. Executive Compensation

1. Review employment agreements and arrangements, including non-C-suite employees, to assess exposure under the new compensation excise tax.
2. Consider revising agreements or arrangements to minimize the potential impact of the excise tax.

B. Charitable Giving

1. Work with individual and corporate donors to educate them on the implications of the new charitable contribution deduction floors.
2. Similarly, work with donors to develop multi-year contribution strategies.

C. Opportunity Zones

1. Be on the lookout for new opportunity zones in future years.

D. QSBS & Ventures

1. Consider structuring new ventures as C corporations if they qualify for QSBS.

E. SALT Cap Temporary Increase and AGI Management

1. If an individual is near the \$500,000 AGI threshold, consider methods of reducing AGI for the year, such as accelerated above-the-line deductions and income deferral options.

Taxpayers should begin implementation planning now. Hall Render's team is available and would welcome the opportunity to assist with internal assessments and strategy sessions tailored to your organization's unique profile to maximize opportunities and minimize disruptions.

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Special thanks to Summer Associate Aariz Gawandi for his assistance with the preparation of this article.

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