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for

Nonprofits

**A mixed bag:
How OBBBA could
affect charitable
donations**

**Nonprofits can't
afford fraud losses**
How to help prevent
common schemes

**When outsourcing
accounting might
make sense**

**Should your
nonprofit adopt AI?**



New Orleans | Houston | Baton Rouge | Covington | Houma
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A mixed bag: How OBBBA could affect charitable donations

The new tax and spending law, known as the One Big Beautiful Bill Act (OBBBA), contains several provisions that directly affect nonprofits. In particular, the impact of OBBBA's charitable giving incentives is expected to be significant. So it's important for nonprofit leaders to understand these provisions and their likely consequences.

Fundraising-friendly provisions

Let's lead with the good news: The OBBBA establishes a permanent deduction for taxpayers who don't itemize their deductions, beginning in 2026. Up to \$1,000 for single filers and \$2,000 for married couples filing jointly can be taken as a charitable deduction when filing annual tax returns. Eligible donations must be made to tax-exempt public charities. Gifts to private foundations or donor-advised funds don't qualify.

Because the Tax Cuts and Jobs Act (TCJA) of 2017 nearly doubled the amount of the standard deduction, fewer taxpayers itemize their deductions than before that law was signed. And the OBBBA increases the standard deduction even further (for 2025, \$15,750 for single filers and \$31,500 for joint filers). Until now, that meant nonitemizers forfeited

deductions for charitable contributions. Researchers at Indiana University and the University of Notre Dame have determined that charitable giving fell by \$20 billion in 2018, the first year the higher deduction took effect. Many within the nonprofit sector hope a universal deduction will encourage more nonitemizing middle-income households to donate.

The OBBBA also makes permanent the limit on cash contributions. Taxpayers can deduct contributions to public charities up to 60% of their adjusted gross income (AGI). Pre-TCJA, the limit was 50% of AGI.

Disincentives for giving

But the OBBBA also includes several provisions that are considered likely to reduce incentives to give. For starters, beginning in 2026, the law imposes new



Fundraising in a new environment

The effects of the One Big Beautiful Bill Act's revisions to the deduction limits and tax incentives for charitable giving may call for you to overhaul your nonprofit's traditional fundraising strategies. Begin with scenario planning, mapping out how donor behaviors might change. Consider the different potential impacts and how they'd affect your bottom line in the short- and long-term. How might an uptick in donations attributable to the new universal deduction weigh against a decline in gifts from corporations and taxpayers who itemize?

You may need to retool your fundraising efforts to appeal to existing and potential middle-income donors. Educating these individuals about the benefit of the universal deduction is a critical first step, as many will be unaware of it. Greater effort may be required to engage itemizers and corporations as well. You should focus on your programs' outcomes to help donors see past the negative tax impact of deduction floors.

"floors" on charitable contribution deductions for both individuals who itemize and corporate taxpayers. The floors reduce the previously deductible amounts. Here's how:

Individuals. For an individual taxpayer, the new floor is 0.5% of AGI. So a donor with an AGI of \$100,000 can't deduct the first \$500 ($\$100,000 \times 0.5\%$) of donations made that year.

Corporations. The floor for corporate deductible donations is 1% of the corporation's taxable income. Researchers at Indiana University's Lilly Family School of Philanthropy estimate that the corporate floor will reduce corporate giving by about \$45 billion over 10 years. The OBBBA also renews the existing limit that restricts corporate deductible donations to 10% of taxable income.

Although corporations can carry forward contributions that exceed the limit for the following five years, contributions that are disallowed because of the 1% floor can be carried forward only from years in which total contributions exceed the 10% ceiling.

Impact on high-income donors

The OBBBA may also disincentivize donations from high-income donors by effectively capping the value

of itemized deductions for individual taxpayers in the highest tax bracket (37%) to 35 cents per dollar, versus 37 cents per dollar pre-OBBBA. This cap becomes effective starting in 2026.

Indiana University researchers examined the impact of this limit on high-income donors, who they characterize as exceptionally responsive to tax incentives. Such donors are responsible for more than half of all

itemized charitable giving. Researchers project that the limit will reduce giving by at least \$4.1 billion per year and may jeopardize as much as \$6.1 billion.

Also, the OBBBA permanently increases the estate and lifetime gift tax exemption to \$15 million, or \$30 million for married couples, for 2026 (\$13.99 million and \$27.98 million for 2025). These amounts will be adjusted annually for inflation. Therefore, reducing estate tax liability is expected to play a minor role in motivating charitable donors.

Adjusting to a shifting landscape

Depending on your nonprofit's historical sources of support, 2026 could bring significant changes to your financial prospects. We can help you navigate the shifting landscape proactively, so you don't have to scramble to adjust to new OBBBA provisions. ■

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Nonprofits can't afford fraud losses

How to help prevent common schemes

There's little evidence that the incidence of occupational fraud is higher for nonprofits. However, nonprofits are less likely to be able to handle financial losses associated with fraud. According to the most recent research by the Association of Certified Fraud Examiners (ACFE), the median fraud loss per occupational fraud incident is \$145,000 for all organizations — an amount that could easily shut down a charity. That's why it's critical to understand the risks and to implement and adhere to strong internal controls.

Mitigating threats

A general lack of financial and staff resources can make smaller nonprofits particularly vulnerable to fraud. Nonprofit leaders generally place greater trust in their employees than for-profit managers do. Some nonprofit managers may, for example, rubber-stamp expense reimbursement reports, allow unsupervised staffers or volunteers to handle cash donations, and neglect to distribute accounting duties among various employees. This kind of oversight (or lack of oversight) is a mistake.

To mitigate fraud threats, evaluate your organization through the eyes of a criminal. If you intended to steal, where would you focus your efforts? Where are the weak links? These are the primary security gaps you must address with internal controls.

For example, many organizations still receive donations in the mail. If one staffer is responsible for opening envelopes, recording contribution amounts and depositing donations, that person could easily commit fraud. So you need to devise mechanisms to help prevent such skimming. One common antifraud control, segregation of duties, requires that two or more people be involved in the process of collecting, recording and depositing checks. Also recommended: Investigate the backgrounds of anyone who'll be handling money.

Regular compliance checks

Unfortunately, the existence of controls doesn't guarantee they're being followed. Although internal controls

provide a deterrent from wrongdoing, they can sometimes be circumvented. Nonprofits, by their nature, are geared toward "doing good," not making money. So, staffers may not be looking for possible financial irregularities. And when budgets are tight — something common in the nonprofit world — leaders often cut resources dedicated to controls and fraud prevention.

Regular compliance checks can help ensure control procedures are being followed. The key is to find out which rules are routinely ignored — and why. Say, for instance, that your employee handbook mandates two levels of approval for expense reimbursement requests. If staffing shortages make following this rule difficult, ask board members to step in when a second signature is required. Another possible solution is to outsource specific tasks (see "When outsourcing accounting might make sense" on page 5).

How to train stakeholders

Another effective antifraud control is employee training. During your onboarding process, inform staffers and volunteers about typical schemes in the nonprofit sector and teach them how to prevent, identify and report possible fraud. Because fraud perpetrators are constantly finding new ways to steal from their employers, initial training should be updated with annual refresher courses. In fact, you might want to ask employees to sign an annual ethics pledge to keep such issues top-of-mind and reinforce the idea that your organization takes fraud prevention seriously.



The ACFE has found that approximately 43% of nonprofit frauds are revealed by tips from staffers, board members, vendors, clients and the public. To encourage such tips, offer potential whistleblowers an anonymous fraud-reporting mechanism (via web,

phone or email) that's available 24/7. Investigate every tip and report the outcome of tip investigations (withholding the names of whistleblowers and others involved) to your nonprofit's stakeholders.

Don't cut these costs

If economic uncertainty or reduced financial support is leading your nonprofit to take cost-cutting measures, be careful not to target critical fraud prevention resources or policies. Make sure you're able to maintain segregation of duties and supervise staffers and volunteers who perform financial tasks. And though network hacking schemes are more likely to be perpetrated by outside criminals, spend what you must to keep all security software current. ■

When outsourcing accounting might make sense

If your nonprofit is paring back its budget and even laying off staffers, you might want to think about outsourcing some functions. Start with accounting and financial tasks. It can be less expensive to outsource them than to pay employees to perform them. Also, work associated with such functions often benefits from the oversight of experienced outside professionals.

Reasons to consider it

Nonprofits may outsource accounting work, such as payroll processing, because they lack the staff resources to perform such time-intensive tasks or because the work poses a fraud risk if undertaken in-house. Many nonprofits also outsource obligations such as financial statement preparation and tax compliance because they lack an internal CFO or the expertise to execute high-level financial work.

Most outsourcing solutions are scalable, allowing you to outsource all or only some functions as your staff, financial and technological resources change.

Options might include outsourcing payables, receivables and cash transaction processing; account reconciliation; financial statement, budget and forecast preparation; tax and grant reporting compliance; and communication of financial matters to your board.

Finding a service provider

To find an outsourcing partner, ask for recommendations from other nonprofits in your community and professional advisors, such as your attorney and banker. Higher-level work may call for hiring a CPA firm, while an outsource partner could handle routine

tasks. For example, consider using a payroll service. Look for providers with extensive nonprofit experience, ask for references and follow up on contacting them.

When vetting potential service providers, make sure you talk with the manager or partner who'll oversee the work you intend to outsource — even if that person won't actually perform the job. This can help provide continuity of service and be a valuable resource to your nonprofit's senior management and board.

Also, discuss cost. This can vary widely depending on your needs and factors such as your geographic location and niche. Services might equal or even exceed what you'd pay an experienced accountant internally — or might cost less. Keep in mind, however, that with an outside firm, you pay only for the amount and level of services you require. Accounting employees, on the other hand, could spend time doing work that someone at a lower pay level could perform. Outsourcing also saves your nonprofit the expenses associated with a regular employee, such as payroll taxes and health insurance.

Make a smooth transition

Once you've settled on a provider, discuss how financial data will flow. For example, will your nonprofit send information to the company, or will the company's personnel perform the work in your office? If a vendor's



unfamiliar with your accounting software, it may need to perform some tasks onsite, at least initially.

Be prepared for other possible transition issues. Generally, there's a learning curve as a service provider familiarizes itself with a client's policies, procedures and systems. You can help smooth the way by assigning the vendor or firm to a single point of contact within your organization.

The buck stops with you

Keep in mind that even if you engage a full-service CPA firm, financial governance remains the responsibility of your nonprofit's board of directors. External service providers can provide financial and accounting advice, but the buck ultimately stops at your board and executives. ■

Should your nonprofit adopt AI?

Artificial intelligence (AI) is rapidly transforming everyday life. But what can it do for nonprofit organizations? And do the potential benefits outweigh risks and costs? If you haven't already done so, consider — and resolve — these questions.

Possible advantages

AI software is now used for a wide variety of purposes — including machine learning, large

language processing and predictive analytics. Nonprofits have integrated AI into their operations to, for example, create personalized email campaigns

based on past donor behavior and build predictive models identifying future community needs.

The primary advantages of using AI generally fall under the following categories:

Streamlining repetitive tasks.

Nonprofits often are run by a lean staff. AI can help reduce your staff's workload and free up time for mission-critical activities by automating administrative duties. These include scheduling, data entry, expense tracking and email follow-ups. Chatbots may be able to handle routine donor inquiries, and AI-powered grant management systems can sift through eligibility criteria — often more efficiently than humans.

Reducing costs. By automating manual processes, AI may significantly reduce your operational costs. Predictive analytics can optimize staff scheduling, thus reducing overtime and improving retention rates. AI can also analyze donor databases to identify patterns that would otherwise require hiring expensive consultants. Over time, such efficiencies can deliver substantial savings while improving outcomes.

Engaging Donors. AI excels at personalization — critical for engaging donors. With the right tools, you can segment supporters, predict giving patterns and deliver tailored messages. AI-driven platforms can suggest the most effective timing and channels for outreach, increasing the likelihood of repeat donations.

Potential drawbacks

AI adoption carries risks. AI algorithms have been known to perpetuate bias unintentionally, leading to inequitable service delivery and donor targeting. So transparency is essential. You'll need to inform stakeholders when you use AI for decision-making and communications.

Nonprofits have integrated AI to create personalized email campaigns and build predictive models identifying future community needs.

Keep in mind that reliance on automation could raise questions among your staff about job displacement. Data privacy and security are also pressing concerns, especially when handling sensitive donor information.

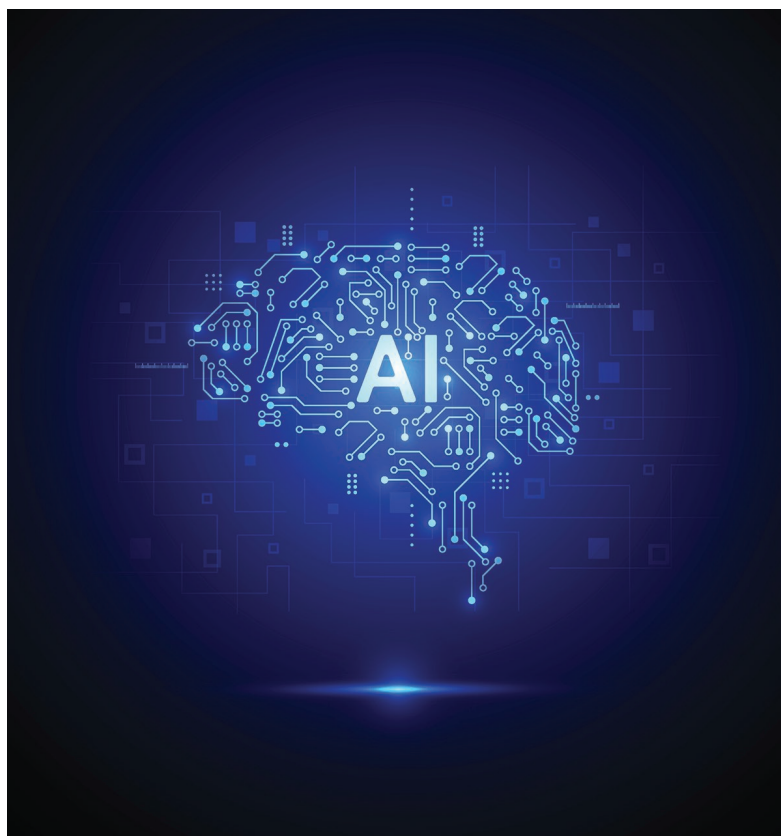
If you adopt AI tools, increase data security protections.

Then there's the cost. You'll need to budget for software subscriptions, training and integration with existing systems.

Pilot programs may be the best option because they enable you to test tools on a small scale before making a larger investment.

Values and fiscal limitations

By reducing repetitive tasks, cutting costs and deepening donor engagement, AI can strengthen your organization. But be sure to manage AI risks thoughtfully. Ensure the technology you choose aligns with your organization's values and fiscal limitations. ■





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Key Proposed Changes in the 2025 OMB Supplement Draft and What They Mean for Nonprofits

The Office of Management and Budget (OMB) recently released the draft of the 2025 Compliance Supplement, an essential resource for auditors and organizations receiving federal funds. The draft highlights several important changes that nonprofits should prepare for now. These updates are designed to align with the 2024 revisions to the Uniform Guidance (UG), simplify some processes, and strengthen accountability. For nonprofits, the impact ranges from reduced audit burdens for smaller organizations to heightened oversight and reporting responsibilities for larger ones.

What's New in the 2025 OMB Supplement?

1. Dual Framework for Compliance Requirements

Federal awards are now divided into two categories: those governed by the pre-2024 UG and those under the revised UG (effective October 1, 2024) and are summarized in Part 3.1 and Part 3.2, respectively. Part 3 of the draft supplement provides instructions on when to apply each appropriately. Other key compliance requirements, including Allowable Costs, Equipment & Real Property Management, Procurement, and Reporting, have been updated for the newer UG.

2. Program & Cluster Changes

Several new programs have been added. Major revisions have been made to HUD housing, education and health programs. Some programs, particularly COVID-19 related programs, have been phased out or their higher risk designation have been removed. Some changes in terminology have been made, in particular "non-federal entity" was changed to "recipient and subrecipient" to emphasize accountability.

3. Audit Threshold Raised

The Single Audit threshold will increase from \$750,000 to \$1,000,000 in federal awards for fiscal years beginning October 1, 2024, easing the burden for many smaller nonprofits. Notably, although the threshold change becomes effective for fiscal years beginning on or after October 1, 2024, the new audit threshold (and related changes to the Type A program threshold) per Appendix VII of the supplement cannot be applied until audits for entities with fiscal years ending September 30, 2025, or later. In summary, entities

with fiscal years ending June 30, 2025 through September 29, 2025 will follow the 2025 Compliance Supplement, but would not be allowed to use the increased threshold until the following year.

4. Appendices and Risk Designations

Updates include changes to high-risk program designations, audit contacts, and program listings. These revisions may affect which programs are selected for major program testing in audits. The draft supplement identified Abandoned Mine Land Reclamation (Assistance Listing 15.252) and Medicaid Cluster (Assistance Listings 93.778, 93.777, and 93.775) as the only two high risk programs.

5. Delayed Issuance

Entities should be aware that single audits for fiscal years beginning after June 30, 2024 should not be submitted until the final version of the 2025 Compliance Supplement is released. For entities submitting to the Federal Audit Clearinghouse prior to the release of the final supplement, resubmission could be required.

Implications for Nonprofit Organizations

For nonprofits, the draft Supplement is both an opportunity and a challenge. Organizations managing multiple grants will need to track which version of UG applies to each award, potentially complicating compliance processes. Smaller nonprofits may benefit from the raised audit threshold, but larger organizations should prepare for increased oversight and changes in audit focus.

Nonprofits should review and update internal controls and policies related to procurement, allowable costs, and equipment management to coincide with UG updates. Early engagement with auditors and proactive staff training will help organizations navigate this transition year smoothly.

Bottom line: The 2025 OMB Supplement reflects a shift toward streamlined reporting and reduced burden for smaller entities, but it also introduces new complexities. Nonprofits that act now to strengthen compliance systems and align policies with the draft guidance will be best positioned for success once the final Supplement is released.