



Legislative Update: **Big Changes Coming to Section 4960**

Positioning Your Organization Ahead of the Curve with the Capital Accumulation Plan (CAP)

A New Era for Executive Compensation in Nonprofits

With the passage of the recent “Big Beautiful Bill,” tax-exempt organizations must prepare for a significant shift in executive compensation taxation. Effective next year, Section 4960 will apply to any employee earning over \$1 million, not just the top five highest-paid individuals.

This change dramatically expands the impact of the 21% excise tax on compensation for high earners across your organization.

What makes this especially problematic is the misalignment it creates:

- ▼ Compensation levels for these employees are not arbitrary—they are set by competitive market standards
- ▲ The organization bears a punitive 21% excise tax for providing those earnings

This is not just a tax issue—it’s a compensation strategy challenge. How can nonprofits remain competitive in recruiting and retaining top talent while absorbing new financial penalties?

The CAP Advantage: A Regulatory-Smart Response

Simplicity Keystone's Capital Accumulation Plan (CAP) was specifically designed to address the compensation constraints that nonprofits face—and is uniquely positioned to neutralize the effects of the expanded 4960 rule.

CAP is a non-qualified plan that allows eligible employees to make pre-tax contributions into a tax-advantaged structure that:

- ✓ Reduces W-2 compensation subject to excise tax
- ✓ Avoids 457(f) lump sum taxation and vesting restrictions
- ✓ Preserves recruiting and retention competitiveness
- ✓ Delivers participants flexible, tax-favored plan distributions
- ✓ Immediately enhances organization's financial statements

This is not a theoretical solution. CAP is already in place at many of the nation's leading nonprofit hospitals, health systems, and tax-exempt institutions. It's been vetted by national law firms and integrated into executive compensation strategies with proven success.

Why Simplicity Keystone?

We are nonprofit-focused consultants with deep experience in the disciplines of Executive Compensation, Legal and Tax, Accounting, and Benefit Administration. Our team understands both the technical nuance of Section 4960 and the broader challenge of building sustainable executive compensation and benefit programs in constrained environments.

What we bring to the table:

- 🔍 Expert guidance on 4960 applicability and compensation modeling
- 🔧 Turnkey design and implementation of the CAP
- 👥 Full administrative support and participant education
- 📄 A strategic pathway to regulatory compliance and talent retention

Get Ahead of the 2026 Deadline

If your organization has highly compensated employees, now is the time to act. Don't wait until this added excise tax is unavoidable—structure your compensation strategy now to protect your leadership team and your mission.

Contact Us

Michael Falkenstein

michael.falkenstein@simplicitygroup.com
(404) 793-2659

Chris Kratochvil

chris.kratochvil@simplicitygroup.com
(470) 607-2824

Learn more at www.simplicitykeystone.com