TaxNewsFlash

Exempt Organizations

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Senate Finance Committee tax title of budget reconciliation bill includes exempt organization provisions

The Senate Finance Committee yesterday released **legislative text of the tax legislation** to be included as the tax title of the Senate's version of the budget reconciliation bill. This may not be the final version of the legislation to be presented to the Senate, as it could be modified, and it is also subject to possible amendment on the Senate floor.

Like H.R. 1 (the budget reconciliation bill known as the "One Big Beautiful Bill Act") passed by the House of Representatives on May 22, 2025 ("House bill"), the Senate's version of the legislation would generally make the tax provisions of the 2017 Tax Cuts and Jobs Act (TCJA) permanent, introduce several new tax benefits proposed by the president during the campaign, and include a host of revenue-raising provisions, some which would directly and adversely impact tax-exempt organizations and their donors.

This Senate Finance Committee version of the legislation would make several modifications to the House bill, including the omission of several provisions that would adversely impact tax-exempt organizations. It would also modify the phase-out rules for several of the Inflation Reduction Act's energy credits as compared to the House-passed legislation.

Read the Finance Committee **section-by-section description**.

Proposals affecting tax-exempt organizations and their donors include:

Increased excise tax rates on college and university investment income

- Replacing the current flat 1.4% rate of tax on the net investment income (NII) of certain private colleges and universities (section 4968) with a tiered rate structure based on an institution's endowment size-per-student, albeit with fewer tiers and lower rates than in the House bill (1.4%, 4%, and 8% in the Senate bill, as compared with rates of 1.4%, 7%, 14%, and 21% in the House bill). Under both bills, rates would increase for endowments of more than $750,000 per student and

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endowments of more than $2 million per student would pay tax at the highest rate. Under both bills, the tax would be modified in several other significant respects as well.

Expanded taxes on executive compensation

- Amending the section 4960 excise tax on remuneration exceeding $1 million currently paid by tax-exempt organizations to certain "covered employees," by expanding the definition of "covered employee" to include *all* current or former employees of the tax-exempt (not just the five highest-paid employees in tax years since 2016). The House bill included an identical provision.

Charitable contribution provisions

Provisions relating to charitable giving proposed in the Senate bill include:

- Imposing a 0.5% floor on the charitable contribution deduction for individuals who itemize deductions—effectively reducing their charitable contributions for a tax year by 0.5% of their contribution base. In addition, the Senate bill would make permanent the temporary individual limitation for cash contributions to certain charities (currently 60% of adjusted gross income). The House bill did not include either of these provisions.

- Reinstating and making permanent a provision in now-expired section 170(p) that enabled non-itemizers to deduct certain charitable contributions and increasing the limit to $1,000 for single filers ($2000 for married taxpayers filing jointly). The House bill would reinstate the provision temporarily and allow non-itemizers to deduct charitable contributions of up to $300 for married taxpayers filing jointly (and $150 for other taxpayers).

- Limiting the corporate deduction for charitable contributions to the extent that the corporation's aggregate contributions exceed 1% of the corporation's taxable income. The House bill included a similar provision.

- Providing a new nonrefundable tax credit (in lieu of a deduction) for certain charitable contributions of cash or marketable securities to certain charitable organizations providing scholarships to eligible elementary and secondary school students. The House bill includes a similar provision.

Other provisions

Several other proposals would affect tax-exempt organizations, including:

- Making material modifications to the clean energy tax credit provisions enacted in the Inflation Reduction Act (IRA), including early sunsets, phase outs, and other changes to the energy tax credits. However, the elective pay provision, which provides access to these credits for charitable and State, local and Tribal government entities, would not be repealed. The House and Senate bills differ on the details of the sunsets, phase outs, and other changes to the energy tax credits.

- Retroactively imposing a deadline of January 31, 2024, for refundable employee retention tax credit (ERTC) claims, similar to a provision that was passed by the House in the Tax Relief for American Families and Workers Act of 2024. The House reconciliation bill included a similar provision.

The Senate bill does not include some provisions of the House bill that would impact tax-exempt organizations. For example, the Senate bill does not include a provision of the House bill that would reinstate the "parking tax," subjecting expenses for employee qualified transportation fringe benefits provided by tax-exempt organizations to the unrelated business income tax (UBIT) at the corporate rate

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(21%). In addition, the Senate bill does not include the provision in the House bill that would increase the rate of tax on the NII of private foundations.

What's next

The Finance Committee tax title, perhaps after further modification, will be combined with other titles of the reconciliation bill and placed before the Senate for floor consideration. It will there be subject to further amendment. The timing is uncertain, but the Senate Republican leadership has set June 27 as a goal in order to complete Senate consideration before the Independence Day recess.

The tax title as presented by the Finance Committee differs from the legislation passed by the House. No doubt the Finance Committee and other Senate committees will make changes to the House version, as well. These House-Senate differences will have to be reconciled and passed by both houses. Again, the timing for final passage is uncertain.

KPMG will provide preliminary analysis and observations on the Senate version of the legislation soon. We will also soon be updating our reports with analysis and observations on the legislation—available on our **dedicated website**.

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