



TaxNewsFlash

Exempt Organizations

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Senate budget reconciliation bill includes exempt organization provisions

The Senate has passed an amended version of the budget reconciliation legislation—the One Big Beautiful Bill—previously passed by the House. The bill will now be taken up again by the House, which can either pass it in the form passed by the Senate or amend it further.

Like H.R. 1, the budget reconciliation bill passed by the House of Representatives on May 22, 2025 (House bill), the Senate's version of the legislation (Senate bill) 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.

Like the version of the Senate tax subtitle released on June 16, 2025, by the Senate Finance Committee (SFC draft) ([read TaxNewsFlash](#)), the Senate bill would make several changes to the House bill. It would also modify the phase-out rules for several of the Inflation Reduction Act's (IRA's) energy credits as compared to the House-passed legislation.

Read the Finance Committee [section-by-section description](#).

The proposals affecting tax-exempt organizations and their donors in the Senate bill 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 under 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 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. However, the Senate bill differs from the House bill (as well as the SFC draft) in several important respects, including:

- Any educational institution with fewer than 3,000 tuition-paying students in the preceding tax year would not be subject to the tax (up from a threshold of 500 tuition-paying students under current law and under the House bill and SFC draft).
- There is no exception for “qualified religious institutions” as in the House bill and SFC draft.

- There is no exclusion of certain foreign students when calculating an institution's per-student endowment, as there was under both the House bill and the SFC draft.

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* employees of the tax-exempt (not just the five highest-paid employees). The provision would also capture certain former employees employed by the tax-exempt organization after December 31, 2016; the House bill and SFC draft would have captured former employees but without any date limitation.

Charitable contribution provisions

Several provisions relating to charitable giving proposed in the SFC draft were included in the Senate bill unchanged from the prior SFC draft, including:

- 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.

In addition, the Senate bill would provide 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 Senate bill differs from a similar provision in the House bill (and in the SFC draft) in a number of respects, including limiting the credit to \$1,700 (as compared to the greater of 10% of adjusted gross income or \$5,000, subject to annual volume cap, under the House bill and SFC draft).

Other provisions

Several other proposals in the Senate bill would affect tax-exempt organizations, including:

- Making material modifications to the clean energy tax credit provisions enacted in the 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 bill (and SFC draft) 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

(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 amended legislation passed by the Senate will be returned to the House for passage or further amendment, possibly after convening a House-Senate conference to resolve differences.

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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