Council on Foundations | CF Leadership Coalition

# Community Foundation Public Policy Update

## January - June 2026

The federal policy landscape for community philanthropy continues to shift, with charitable giving, donor intent, donor privacy, and charitable organization oversight and enforcement becoming key issues for the Trump Administration, Congress, and the courts.

## Executive Branch Updates

Since January 2025, we've seen increased scrutiny of nonprofits, particularly when it comes to issues related to waste, fraud, and abuse. While most of these concerns are related to alleged misuse of taxpayer dollars and federal financial assistance, we've also seen conversations on fiscal sponsorship and the Southern Poverty Law Center.

**The Department of the Treasury is working on nonprofit transparency and anti-fraud initiatives.** These include:

- Treasury announced forthcoming changes to Form 990, aiming to provide additional reporting on activities such as government grants and fiscal sponsorships. Treasury and the IRS are expected to release proposed regulations and provide a comment period, though the timeline has not been announced.
- Treasury announced initiatives to combat fraud in Minnesota, including the **formation of an IRS task force dedicated to investigating misuse of 501(c)(3) status** implicated in the fraud case in Minnesota. It is unclear whether the task force's work will expand beyond this case.

**The federal grants environment continues to shift.** The Office of Management and Budget (OMB) has focused on federal financial assistance in recent months. Here's what you need to know:

- On May 29, OMB released a proposed rule to revise the Guidance for Federal Financial Assistance, also known as the Uniform Guidance – the framework that governs most federal grantmaking to community foundations and other entities. The proposed rule would align federal grantmaking with an August 2025 executive order and other Trump Administration policy priorities.

- On May 13, OMB circulated a memo to federal agencies requesting data on federal spending (such as awards and contracts) on 49 nonprofits, including the Minneapolis Foundation and several other foundations.

**The Department of Justice (DOJ) announced an indictment of the Southern Poverty Law Center (SPLC).** DOJ alleges that SPLC funneled over $3 million in donated funds to extremist organizations. This has led to many conversations, including:

- National donor-advised fund (DAF) sponsors said they will not make grants from DAFs to SPLC, sparking outcry from many in the sector.
- Community foundations and other philanthropic organizations joined letters from the Democracy Fund and the Leadership Conference on Civil Rights in defense of SPLC.
- The House Judiciary Committee held two hearings on SPLC, where Committee Republicans argued that SPLC had deviated from its original mission to target conservative groups and mislead donors.

# Congress Updates

As the 119th Congress continues, members continue to introduce legislation, hold hearings, and announce actions that impact community foundations. While some developments – like introducing legislation to support community philanthropy – have been helpful, we've also seen a continued focus on investigations related to alleged wrongdoing throughout the nonprofit sector.

## Congressional Actions

**Annual hearings on Treasury's Fiscal Year 2027 budget request and department priorities:**
The first week of June, Treasury Secretary Scott Bessent testified in the Senate Finance and House Ways and Means Committees. Key moments from those hearings include:

- Rep. Blake Moore (R-UT) and Secretary Bessent had an exchange about **Trump Accounts and philanthropy's role**, with Secretary Bessent commending the Dells' recent investment**.**
- Rep. David Schweikert (R-AZ) raised **Form 990 revisions and reforms** that would make it easier to determine whether tax-exempt organizations are meeting charitable purposes.
- Sen. James Lankford (R-OK) asked Secretary Bessent to **prioritize finalizing regulations on donor-advised funds** and voiced concerns with the 2023 proposed regulations.
- Other Republican members of the Senate Finance Committee made statements on **conservation easements**, suggesting that this could be a priority in the coming months.

**Concerns about abuses of tax-exempt status:**
Congressional Republicans continued to raise concerns about fiscal sponsorship and "dark money." In several cases, Republicans requested additional oversight of charitable organizations. This includes:

- A February **House Ways and Means Committee** **hearing** explored foreign influence of nonprofits. Committee Republicans examined whether foreign actors use nonprofits to obscure giving to political causes. Members and witnesses raised fiscal sponsorship and DAFs as tools that conceal donors and funding sources, and Rep. Lloyd Smucker (R-PA) said he is working on fiscal sponsorship legislation.

- On May 13, the **House Committee on Oversight** launched the Task Force on Defending Constitutional Rights and Exposing Institutional Abuses. It will focus on so-called illegal DEI, the abuse of social welfare programs, and dark money efforts to suppress free speech.
- We saw more **letters from Congressional Republicans**, including one to Secretary Bessent and IRS CEO Frank Bisignano asking for enhanced oversight of nonprofits.

### Legislation Impacting Community Foundations

- **Workforce Development Through Post-Graduation Scholarships Act (H.R.7594)**: This bipartisan legislation would treat post-graduation scholarships from community foundations as a charitable activity, excluding them from recipients' taxable income.
- **IRA Charitable Rollover Facilitation and Enhancement Act (S.3975/H.R.2891)**: This bipartisan legislation would allow qualified charitable distributions from individual retirement accounts to donor-advised funds.
- **Grave Injustice Parity Act (H.R.7087)**: This bipartisan legislation would allow tax deductions for charitable donations and bequests made to nonprofit cemeteries and enable foundations to give to them without penalty.
- **Protecting Charitable Giving Act (S.4539):** This Republican-led bill would increase penalties for disclosing the identities of donors to tax exempt organizations.
- **SPONSOR Act (S.3942/H.R.7799):** This Republican-led bill would codify a definition of fiscal sponsorship and hold fiscal sponsors criminally and civilly liable for certain activities of their fiscally sponsored projects.

Read more about these bills and other legislation the Council is monitoring.

## Legal Updates

There have been several recent developments related to donor intent, donor privacy, the Johnson Amendment, and other issues in the courts. For more details on these cases, read the court cases we're monitoring (log in to access) or contact our legal team at legal@cof.org.

**Peterson v. Christian Community Foundation (d.b.a. WaterStone)** (filed January 2026 in the Federal District of Colorado):

- **Issue**: Donor intent; plaintiff claims WaterStone terminated his advisory privileges in violation of his contractual rights under the DAF agreement.
- **Status**: The court denied WaterStone's motion to limit discovery at this stage. The court will next consider WaterStone's motion to dismiss the case.

**American Alliance for Equal Rights (AAER) v. Hispanic Scholarship Fund (HSF)** (filed December 2025 in the District of Washington, DC):

- **Issue**: Race-based scholarships; AAER alleges that HSF is in violation of Section 1981 because their scholarship program constitutes a contract between HSF and applicants. HSF contends that its scholarships represent charitable gifts that are not subject to Section 1981. HSF moved to dismiss; the Council and Independent Sector submitted a joint amicus brief in support of that motion.
- **Status**: The court heard arguments on HSF's motion to dismiss on February 12. The court has yet to issue a ruling.

**Buckeye Institute v. IRS** (filed in 2022 in the Southern District of Ohio):

- **Issue:** Donor privacy; the Buckeye Institute claims that requiring 501(c)(3) organizations to disclose their donors to the IRS violates the First Amendment by creating a risk of public disclosure, chilling the association and assembly rights of the plaintiff and its donors. The IRS moved to dismiss, which the district court denied.
- **Status:** The IRS petitioned the Sixth Circuit for an interlocutory appeal on the question of which standard of review the lower court should apply in evaluating Buckeye's First Amendment claims. The Sixth Circuit heard arguments on April 29 but has yet to issue a ruling.

**National Religious Broadcasters (NRB) v. Bessent** (filed in 2024 in the Eastern District of Texas):

- **Issue:** Nonprofit nonpartisanship; NRB sued the IRS, challenging the constitutionality of the Johnson Amendment. The IRS proposed a settlement that would prohibit the IRS from enforcing the Johnson Amendment against the plaintiffs.
- **Status:** The case and proposed settlement were dismissed because the district court found it lacked jurisdiction. The plaintiffs appealed to the Fifth Circuit, and it is now in the early stages.