Patterson Belknap

Patterson Policy Watch – A Resource for the Nonprofit Sector

Welcome to the *Patterson Policy Watch*, which tracks key legal and policy developments that matter to the nonprofit sector. In response to the rapidly evolving landscape under the new presidential administration, Patterson Belknap's Tax-Exempt Organizations Group is highlighting executive actions, agency directives, legislative updates, and judicial responses that have the potential to impact nonprofit organizations and the communities they serve.

Below is a digest of select developments from the past week through July 20, 2026, which are organized broadly by issue area. We note that this is not a comprehensive list of all updates that may potentially be relevant to tax-exempt organizations. We will continue to provide regular updates to the *Patterson Policy Watch* to help you anticipate and navigate policy and legal developments. You can also view prior editions of the *Patterson Policy Watch* here.

Other

- July 16: The Department of State hosted a convening of governments from around the world, entitled the "Ministerial on the Resurgence of Political Terrorism," "to address the rise of far-left political terrorism as a transnational threat." During the convening, Department of the Treasury Secretary and Acting Internal Revenue Service (IRS) Commissioner Scott Bessent remarked that "Treasury is expanding its efforts to identify organizations that abuse charitable and nonprofit structures as vehicles for illicit finance," adding that "[Treasury is] examining where tax-exempt status has been exploited, where charitable entities have become financial conduits for foreign influence activity, and how those entrusted with stewardship of these organizations have instead enabled violence." Secretary Bessent stated that Treasury "will hold these organizations, officers, directors accountable. And just as a financial institution must know their clients, [the organizations, officers, and directors] must know their grantees."
    - Secretary Bessent made similar comments during a May 28 press conference, as covered in the June 2, 2026 issue of the *Patterson Policy Watch*.

Judicial Watch

As legal challenges to executive actions continue to grow, and as the Department of Justice (DOJ) has begun to initiate actions in court to enforce the administration's priorities, we are tracking developments in key cases that have the potential to most directly impact nonprofit organizations across the sector.

Denial of Congressionally Appropriated Funds

A growing number of nonprofit grantees have sued the federal government (and their agents) for improperly withholding Congressionally appropriated funds. Updates in cases we are following in this area include:

- *National Public Radio v. Trump* (District of Columbia) and *Public Broadcasting Service v. Trump* (District of Columbia): On May 27, 2025, National Public Radio (NPR) and several local NPR affiliates challenged the suspension of federal grants to NPR, pursuant to the May 1, 2025 executive order, entitled "Ending Taxpayer Subsidization of Biased Media" (the "Executive Order"). Plaintiffs allege that the suspension of the grants violates the Administrative Procedure Act and Constitutional separation-of-powers principles and constitutes unconstitutional retaliation for disfavored speech in violation of the First Amendment. On May 30, 2025, the Public Broadcasting Service (PBS) and one of its local affiliates filed a lawsuit raising similar claims. The two cases were consolidated by the District Court on February 20, 2026.
    - On October 24, 2025, Plaintiff NPR and Defendant Corporation for Public Broadcasting (CPB) filed cross-motions for summary judgment. On March 31, 2026, the District Court granted Plaintiffs' motion for summary judgment. The District Court found that the suspension of federal grants to NPR and PBS, pursuant to the Executive Order, violates the First Amendment as it singles out two speakers on the basis of their content and prevents them from receiving all federal funding. The District Court preliminarily enjoined Defendants from enforcing or implementing the funding prohibitions against NPR and PBS, set forth in Section 1 and Section 3(a) of the Executive Order.
    - On April 23, 2026, pursuant to the parties' joint motion, the District Court entered partial final judgment against Defendants regarding the funding prohibitions against NPR and PBS set forth in Section 1 and Section 3(a) of the Executive Order.
    - On **July 16, 2026,** Plaintiffs and Defendants filed a joint stipulation of dismissal of remaining claims. Under the joint stipulation, Plaintiffs and Defendants agreed to voluntarily dismiss Plaintiffs' other claims against Defendants regarding Sections 3(b) and 3(c) of the Executive Order. On **July 17, 2026,** the District Court issued a minute order to dismiss Plaintiffs' other claims without prejudice and directed the Court Clerk to terminate the case.
- *Thakur v. Trump* (Northern District of California): On June 4, 2025, a group of University of California ("UC") researchers who received federal grants brought a lawsuit challenging the federal government's efforts to suspend or terminate their grants. Plaintiffs contend that the grant suspensions and terminations violate the Administrative Procedure Act, the First Amendment, and Constitutional separation-of-powers principles.
    - On June 23, 2025, the District Court granted Plaintiffs' motion for a preliminary injunction barring Defendants from terminating the grants of two classes of University of California (UC) researchers: (1) researchers whose grants were terminated because they allegedly involved diversity, equity, and inclusion (DEI)-related research topics, and (2) researchers whose grants were terminated by generic form letter without any reasoned explanation. The District Court held that termination of grants solely because they involved alleged DEI-related research topics violated the First Amendment and that the termination of grants by form letter, without providing a reasoned explanation for the termination, violated the Administrative Procedure Act's prohibition on arbitrary and capricious administrative action.
    - On December 23, 2025, the Ninth Circuit Court of Appeals granted in part and denied in part Defendants' motion for a partial stay pending the appeal of the preliminary injunction. The Ninth Circuit found that a partial stay was warranted regarding claims raised by UC professors whose research was terminated by form letter without any specific explanation for the termination, but that a stay was not warranted regarding claims raised by UC professors whose grants were terminated because of DEI-related research topics.
    - On **July 15, 2026,** Plaintiffs filed a motion for summary judgment and class certification. Plaintiffs argue that Defendants' grant suspensions and terminations violate the First Amendment, Equal Protection Clause, and the Separation of Powers doctrine and seek to certify four different classes of Plaintiffs whose grants were terminated.
- *State of Washington v. United States Department of Housing and Urban Development* (District of Rhode Island): In a case related to *State of Washington v. United States Department of Housing and Urban Development* (covered most recently in

the July 7, 2026 issue of the *Patterson Policy Watch*), on July 7, 2026, Plaintiff States sued the Department of Housing and Urban Development (HUD) challenging the June 1, 2026 Notice of Funding Opportunity (NOFO) for the Continuum of Care Program, which seeks to implement a cap on permanent housing projects, setting aside money that Congress has reserved for these permanent projects. Plaintiffs argue that the June 1, 2026 NOFO violates the Administrative Procedure Act because it is in excess of HUD's statutory authority, is arbitrary and capricious, and is contrary to law. Plaintiffs request that the District Court declare the June 1, 2026 NOFO unlawful, set it aside, and preliminarily and permanently enjoin Defendants from enacting the June 1, 2026 NOFO.

  - On **July 17, 2026,** Plaintiffs filed a motion for summary judgment, or in the alternative a motion for a preliminary injunction, arguing that Defendants' June 1, 2026 NOFO for the Continuum of Care Project should be permanently set aside by August 10, 2026 to avoid irreparable harm to Plaintiffs or at least Defendants should be preliminarily enjoined from enacting them.

Other Cases to Watch

- *Young America's Foundation v. Internal Revenue Service* (District of Columbia): On **July 13, 2026,** on behalf of its client, Young America's Foundation (YAF), a Section 501(c)(3) organization, the National Taxpayers Union Foundation's Taxpayer Defense Center filed a lawsuit, challenging Section 6033(b)(5) of the Internal Revenue Code, which requires YAF and other Section 501(c)(3) organizations to disclose the names and addresses of all substantial contributors on Schedule B of Form 990, the annual tax return. Plaintiff is seeking a declaratory judgment that Section 6033(b)(5) is unconstitutional under the First Amendment and injunctive relief to bar the IRS from compelling YAF to disclose the names and addresses of its substantial contributors.

Legislative Watch

- On July 16, H.R. 9721, the "Fiscal Sponsorship Transparency Act of 2026," was introduced in the House of Representatives by Rep. Lloyd Smucker (R-PA) and referred to the House Committee on Ways and Means.
  - The bill would amend Section 6033(b) of the Internal Revenue Code (the "Code"), which addresses the information that tax-exempt organizations must disclose in their annual federal income tax return, to require tax-exempt organizations that have a "fiscal sponsorship arrangement" during the taxable year to disclose the following information:
    - (1) the name of each party to the arrangement;
    - (2)
      - either (i) the aggregate amounts made available under such arrangement for a specifically identified project or (ii) the aggregate amounts transferred under such arrangement to the person on whose behalf the organization receives and administers amounts; and
      - a description of the activities to which amounts so made available or transferred relate;
    - (3) the name of the individual designated as the principal officer managing such fiscal sponsorship arrangement on behalf of the organization; and
    - (4) the date on which the arrangement began and, if applicable, ended.
  - The bill defines a "fiscal sponsorship arrangement" as an arrangement:
    - (1) between an organization and another person that is not tax-exempt;
    - (2) under which:
      - (i) the organization agrees for consideration to receive and administer amounts on behalf of such other person; or
      - (ii) the organization publicly solicits amounts for carrying on a specifically identified project that is represented as a means to further an exempt purpose of the organization, the organization agrees to receive and administer amounts directed to the project and make such amounts available for the organization to carry out the project, and either the organization or the other person may terminate the relationship; and
    - (3) under which the organization retains discretion and control over such amounts to ensure such amounts are used to further an exempt purpose of the organization.
  - The bill would also amend Section 170(c) of the Code to prohibit a charitable deduction for any contribution or gift made under an "improper conduit arrangement."
    - The bill defines an "improper conduit arrangement" as an arrangement between a tax-exempt organization and another person under which (1) contributions are solicited or received to be transferred to a specifically identified person not exempt from tax under Section 501(a) of the Code and (2) the tax-exempt organization fails to exercise discretion and control over the use of the funds.
    - A tax-exempt organization that engages in an improper conduit arrangement would be subject to a 20% excise tax on the amount of the arrangement, and an organization manager who knows that such arrangement is an improper conduit arrangement would be subject to a 5% excise tax unless the arrangement is not willful and is due to reasonable cause.
  - If enacted, the bill would apply to taxable years beginning after December 31, 2027.
- On July 16, H.R. 9722, the "Fair Treatment of Religious Organizations Act of 2026," was introduced in the House of Representatives by Rep. Blake Moore (R-UT) and referred to the House Committee on Ways and Means. The bill would amend Section 501 of the Code by adding a new section that would provide that, for purposes of determining whether an organization is organized and operated for a religious purpose, "(1) a religious belief or practice concerning marriage, sexuality, or gender identity shall not be treated as being inconsistent with law or public policy, and (2) a belief shall not fail to be treated as a religious belief merely because such belief is not compelled by or central to a system of religion."
- On July 16, H.R. 9731, the "No Granting Riches Intended for Taxpayers Act of 2026" or "No GRIFT Act of 2026," was introduced in the House of Representatives by Rep. Andy Biggs (R-AZ) and referred to the House Committee on the Judiciary. The bill would make a Section 501(c)(3) organization ineligible to receive a grant from the DOJ in a fiscal year if (i) the organization had 50% or more of its revenue comprised of one or more grants awarded by the DOJ for the most recently concluded fiscal year and (ii) the organization compensated an officer or employee in an amount that exceeded the annual salary authorized to be paid for the U.S. Attorney General. An organization seeking a grant from the DOJ would be required to submit a certification that the organization is not ineligible to receive a grant.
- On July 18, H.R. 9771, the "Stopping Foreign Influence in Elections Act of 2026," was introduced in the House by Rep. Nicole Malliotakis (R-NY) and referred to the House Committee on Ways and Means. The bill would amend the Code by adding a

new section to the Code that would require certain tax-exempt organizations to pay a penalty for “disqualified political committee contributions,” which are contributions made by a “specified tax exempt organization” to certain political committees or Section 501(c)(4) organizations if such “specified tax exempt organization” received, in the two years prior to the contribution, any contribution or gift from a “foreign national,” as defined in Section 319(b) of the Federal Election Campaign Act of 1971. The bill defines a “specified tax exempt organization” as an organization described in Section 501(c) of the Code that is required to file an annual return and that has gross receipts equal to or in excess of $200,000 or assets equal to or in excess of $500,000. The penalties for such “disqualified political committee contributions” would start at 100% the amount of such contribution for a first disqualified political committee and increase for repeated violations.

- On July 18, H.R. 9772, the “Foreign Funding Transparency Act,” was introduced in the House by Rep. David Schweikert (R-AZ) and referred to the House Committee on Ways and Means. The bill would amend Section 6033 of the Code to require that “specified tax exempt organizations” disclose the aggregate amount of contributions received from “foreign nationals,” as defined in Section 319(b) of the Federal Election Campaign Act of 1971, during the taxable year and the aggregate amount of contributions received from foreign nationals stated separately, with respect to each “foreign country of concern,” as defined in Section 10612 of the Research and Development, Competition, and Innovation Act. The bill defines a “specified tax exempt organization” as an organization described in Section 501(c) of the Code that has gross receipts equal to or in excess of $200,000 or assets equal to or in excess of $500,000.

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