

Abstract

This analysis examines critical regulatory and operational developments affecting nonprofit organizations during the 7 days ending July 28, 2025. Major federal developments include IRS policy reversals enabling church political endorsements, grant terminations reaching \$17 billion across 700 programs, and Supreme Court approval of federal workforce reductions. Congressional oversight intensifies through DOGE subcommittee investigations targeting nonprofit funding relationships. The "One Big Beautiful Bill Act" imposes substantial tax changes including expanded excise taxes covering all employees earning over \$1 million. Technology challenges include Microsoft's discontinuation of free nonprofit licensing, California's AI employment discrimination regulations, and executive pay disparities reaching 208:1 ratios between nonprofit and for profit sectors. State developments feature expanded federal benefit restrictions, foreign donor limitations, and pay transparency requirements. Texas nonprofits lead massive flood recovery efforts while navigating reduced FEMA coordination capacity, demonstrating sector resilience amid unprecedented regulatory complexity.

July 28, 2025 Navigator Update: Federal Cuts, Tax Changes, Nonprofits Working with FEMA, and More!

From Nonprofit Management Navigator

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Introduction

The nonprofit sector confronts extraordinary regulatory and operational upheaval during the 7 days ending July 28, 2025, marked by fundamental policy shifts and intensified oversight across federal, state, and local levels. Federal agencies terminated 700 grant programs totaling \$17 billion, forcing rapid organizational restructuring while the IRS reversed 70 years of Johnson Amendment enforcement. Congressional scrutiny escalated through House DOGE investigations and Homeland Security examinations of nonprofit funding relationships, with some organizations characterized as supporting terrorism. The "One Big Beautiful Bill Act" introduces sweeping tax changes including the expanded Section 4960 excise taxes affecting all employees earning over \$1 million annually. Technology challenges intensify as Microsoft eliminates free licensing for thousands of organizations, California implements comprehensive AI employment discrimination regulations, and executive compensation gaps reach historic levels. State regulatory expansions include HHS restrictions on federal public benefits, Florida's foreign donor prohibitions, and multi-state pay transparency implementations. Texas nonprofits demonstrate remarkable sector resilience by leading massive flood recovery efforts despite

reduced FEMA coordination capacity, highlighting both operational challenges and the sector's critical disaster response capabilities during unprecedented governmental transitions.

Priority Legend

Priority indicators help nonprofit leaders quickly identify which developments require their most immediate attention based on urgency and operational impact.

 Immediate Action  Requires Organizational Response  Monitor and Prepare

Nonprofit News

Trump Executive Order Targets College Sports with Federal Funding Enforcement

President Trump signed an executive order July 25 requiring largest athletic departments to maintain scholarship numbers for women's and Olympic sports while banning pay-for-play NIL deals. The order empowers the Department of Education to withhold federal funds from non-compliant institutions, creating new compliance challenges for educational nonprofits and universities receiving federal assistance.

Source: [White House Presidential Actions](#)

Federal Grant Terminations Reach \$17 Billion Affecting 700 Programs

Nearly 700 federal grant programs totaling \$17 billion have been terminated since January, with USAID losing \$5.4 billion and HUD approximately \$4 billion. Universities, research institutions, and nonprofits face immediate operational challenges as community services suffer from eliminated funding streams requiring rapid organizational restructuring and alternative revenue sources.

Source: [Federal News Network - A new look into the scale and scope of grant terminations](#)

FEMA Workforce Reductions Impact Nonprofit Disaster Coordination Requirements

FEMA's coordination capacity has been compromised following Trump administration workforce reductions, with staff cut by one-fifth since January 2025 and preparedness training ceased for months, affecting over 7,000 trainees. Changes coincided with July 2025 Central Texas floods, raising concerns about federal disaster response effectiveness as Voluntary Agency Liaisons face reduced resources for coordinating with nonprofit partners. Organizations must navigate increased uncertainty in federal coordination while relying more heavily on state

VOAD networks and direct partnerships. Current disruptions require nonprofits to strengthen alternative coordination mechanisms during federal emergency management restructuring.

Source: [Wikipedia - Federal Emergency Management Agency](#)

Charitable Sector Advocacy Groups Challenge Federal Funding Restrictions Through Legal Action

Legal advocacy organizations filed federal lawsuits challenging executive orders targeting nonprofit organizations and federal funding restrictions. Legal action seeks to protect nonprofit operational independence and community service capacity while establishing precedent for constitutional limits on executive branch authority over charitable sector operations.

Source: [Student Borrower Protection Center](#)

USAID Program Cancellations Eliminate Nearly All of Agency Portfolio

State Department announced the termination of over 80% of USAID programs, affecting thousands of international development and humanitarian nonprofits globally. Organizations lost \$800 million in Johns Hopkins grants alone, resulting in 2,200 job losses and forcing nonprofits to cease lifesaving international programs while seeking alternative funding partnerships.

Source: [ABC News - USAID programs now being run by State Department as agency ends operations](#)

Foundation Endowment Taxes Increase Under New Federal Tax Legislation

New tax law imposes graduated college and university endowment taxes from 1.4% to 8% based on per-student investment assets, with highest rates affecting institutions exceeding \$2 million per student. Private colleges and universities face significant new tax burdens requiring endowment management strategy changes and potential impacts on scholarship and program funding capacity.

Source: [Nonprofit Law Blog - Some Highlights of H.R. 1](#)

OpenAI Launches \$50 Million Community Fund for Nonprofit AI Innovation

OpenAI announced on July 18, 2025, the establishment of an initial \$50 million OpenAI Community Fund to support nonprofit and community organizations leveraging artificial intelligence to address critical societal challenges. This initiative directly responds to the independent OpenAI Nonprofit Commission's comprehensive report, informed by over 500 nonprofits representing more than 7 million Americans. The fund builds on OpenAI's July 17 Nonprofit Jam, which brought together 1,000 nonprofit leaders across 10 US locations to explore practical AI applications. Every Nonprofit Jam participant receives 12 months of free ChatGPT Plus access to support their ongoing work, with OpenAI promising an August report on AI integration case studies and lessons learned.

Sources:

- [OpenAI - \\$50 Million Fund to Build with Communities](#)
- [StartupHub AI - OpenAI Establishes \\$50M Community Fund](#)
- [OpenAI - Nonprofit Jam](#)

● Nonprofits Must Begin 2026 Strategic Planning Now Amid Cybersecurity and Economic Uncertainties

Organizations should initiate 2026 strategic planning immediately, with emphasis on cybersecurity resilience and economic volatility preparation. Key trends include increased AI applications in strategic planning, enhanced internal controls for disaster recovery, and modular strategy frameworks for organizational agility. Economic uncertainties are driving M&A activity, requiring stronger strategic alignment and stakeholder collaboration capabilities for long-term sustainability.

Source: [BSC Designer - Strategic Planning Trends 2025-2026](#)

● Microsoft Discontinues Free Nonprofit Licensing Effective July 1, 2025

Microsoft ended free grant-based licenses for Microsoft 365 Business Premium and Office 365 E1 starting July 1, 2025, significantly impacting nonprofit IT budgets. Organizations using these free plans can continue until their next renewal date, followed by a 30-day grace period and 60-day data retention period before deletion. Nonprofits must transition to paid discounted plans or continue with Microsoft 365 Business Basic (remaining free for up to 300 users). The change forces organizations to reassess technology needs, evaluate licensing costs, and potentially restructure IT operations to maintain productivity tools within budget constraints while ensuring data preservation.

Source: [LicenseQ - Microsoft Nonprofit Licensing M365 Changes July 2025](#)

● NEA Terminates Hundreds of Grants Following Budget Elimination Proposal

The National Endowment for the Arts sent termination emails to hundreds of arts organizations on May 3, 2025, canceling grants worth over \$27 million to nearly 560 organizations spanning performing, visual, literary, and folk arts programs. The terminations occurred hours after President Trump proposed eliminating the agency from the federal budget. Organizations received notice that funding no longer aligned with agency priorities focusing on "projects that reflect the nation's rich artistic heritage and creativity as prioritized by the President." Affected grantees were given seven days to appeal decisions, with organizations scrambling to find alternative funding sources for ongoing projects.

Source: [NPR - NEA Grant Terminations](#)

● House Homeland Security Committee Investigates Border-Related NGOs

House Committee on Homeland Security Chairman Mark E. Green and Subcommittee Chairman Josh Brecheen launched an investigation into over 200 non-governmental organizations to examine whether NGOs receiving federal funding incentivized border crossings under the previous administration. Many targeted NGOs operate in partnership with the federal government and receive FEMA Shelter and Services Program funding to provide basic necessities to newly arrived migrants. The investigation reflects broader efforts to characterize nonprofits as "terrorist supporting organizations" through legislation like H.R. 6408 and H.R. 9495, which nearly made it into the 2025 reconciliation package.

Source: [Arab American Institute](#)

Nonprofit Federal Regulatory Developments

Department of Energy Caps Nonprofit Indirect Costs at 15% for New Awards

The Department of Energy implemented a policy limiting indirect cost reimbursement for nonprofit organizations to a maximum 15% of total project award amount, effective immediately for new or conditional awards. This dramatic reduction from typical 30%+ negotiated rates affects research, development, and deployment grant recipients, forcing organizations to absorb higher administrative costs or restructure operations. Policy projects \$935 million annual taxpayer savings across all entity types while significantly impacting nonprofit financial sustainability on federal energy projects.

Source: [Department of Energy Financial Assistance Policy](#)

HHS Broadens Federal Public Benefit Restrictions Under PRWORA, Limiting Nonprofit Service Eligibility

HHS issued guidance effective July 14, 2025, expanding "federal public benefits" definition under PRWORA, reversing 27 years of policy. The interpretation restricts Head Start, Health Center Programs, mental health block grants, and social services to U.S. citizens and "qualified aliens" only. Nonprofits face compliance challenges as previously unrestricted programs now require eligibility verification, though charitable organizations retain statutory exemption from immigration status determinations. Organizations need legal consultation for expanded restriction compliance.

Source: [Greenberg Traurig - HHS Restricts Eligibility for Certain Federal Health and Welfare Programs](#)

Department of Education Convenes Rulemaking Committee for PSLF Program Changes

Federal negotiated rulemaking committee met June 30-July 2 to develop regulations excluding organizations with "substantial illegal purpose" from Public Service Loan Forgiveness eligibility. Proposed rules could disqualify immigration assistance, civil rights advocacy, and social justice

organizations from program benefits, requiring comprehensive organizational compliance review and legal consultation.

Source: [Inside Higher Ed - Education Department Outlines Plan to Change PSLF Rules](#)

OSHA Expands Penalty Reductions for Small Employers

The Department of Labor revised OSHA's Field Operations Manual to expand to 70% penalty reductions from employers with 10 or fewer employees to those with up to 25 employees. Small nonprofits now benefit from significantly reduced workplace safety violations penalties, requiring organizations to assess their workforce size and safety compliance procedures to maximize available penalty reductions under the new guidelines.

Source: [OSHA](#)

House DOGE Subcommittee Launches Investigation into NGO Federal Funding

House Subcommittee on Delivering on Government Efficiency Chairwoman Marjorie Taylor Greene opened hearings on "Public Funds, Private Agendas: NGOs Gone Wild," examining how left-wing nonprofits allegedly used federal tax dollars to advance political agendas. The subcommittee investigated Biden administration's \$20 billion Greenhouse Gas Reduction Fund that awarded grants to environmental nonprofits, with some organizations created specifically to receive federal funding. The House Judiciary Subcommittee on Oversight also held hearings titled "How Leftist Nonprofit Networks Exploit Federal Tax Dollars to Advance a Radical Agenda," signaling intensified congressional scrutiny of nonprofit federal funding relationships.

Source: [House Judiciary Committee](#)

Nonprofit Human Resources Developments

Supreme Court Allows Federal Workforce Reduction Plans to Proceed

The Supreme Court granted an 8-1 stay allowing the Trump administration to implement Executive Order No. 14210, which mandates large-scale federal workforce reductions and agency reorganizations. This ruling affects IRS operations and other federal agencies that nonprofits regularly interact with for compliance and oversight functions. Nonprofits should prepare for potential delays in IRS processing times, reduced customer service availability, and possible changes to examination procedures as the agency adjusts its workforce structure under the reorganization mandate.

Source: [Supreme Court Opinion 24A1174](#)

Nonprofit Return-to-Office Mandates Disproportionately Impact Marginalized Workers

Analysis reveals nonprofit sector's return-to-office trends are reversing pandemic-era equity gains, with remote work elimination particularly affecting disabled workers, caregivers, workers of color, and LGBTQIA+ employees. March 2025 Gallup polling shows 93% of remote-capable workers prefer hybrid or remote arrangements, yet only 19% of nonprofit job openings offered full remote work by 2022. Organizations implementing successful flexible policies focus on purposeful in-office collaboration rather than surveillance, with Community Partners requiring only one office day weekly while maintaining twice-yearly retreats. Nonprofit leaders recognize flexible work as an essential recruitment tool and resilience strategy amid funding uncertainties, balancing mission alignment with employee equity needs.

Source: [Nonprofit Quarterly - Return to Office: What's Happening in the Nonprofit Sector](#)

Massive Executive Pay Gap Persists Between Nonprofit and For-Profit Sectors

New compensation data reveals stark executive pay disparities, with S&P 500 CEOs earning median compensation of \$17.1 million in 2024 compared to nonprofit CEOs averaging \$82,146 as of June 2025, representing a 208:1 ratio. For-profit CEO compensation increased 9.7% in 2024, while nonprofit executive pay has grown modestly. Stock awards comprise 71.6% of corporate CEO packages, contrasting with nonprofit sector's emphasis on base salary and modest benefits. The compensation gap reflects fundamental differences in organizational structure, funding sources, and mission focus, with nonprofits prioritizing community benefit over shareholder returns while competing for executive talent in constrained financial environments.

Sources:

- [Equilar/Associated Press 2025 CEO Pay Study](#)
- [ZipRecruiter Nonprofit CEO Salary Data](#)

Federal DEI Guidance Creates Recruiting Compliance Challenges

EEOC and DOJ released technical assistance documents in March 2025 warning nonprofits that DEI-motivated hiring practices may violate Title VII if employment actions are motivated by race, sex, or protected characteristics. Federally funded nonprofits must remove race-based recruitment strategies and DEI-focused job postings face new compliance requirements under federal executive orders. Organizations risk losing federal funding for non-compliance with anti-discrimination guidance that restricts candidate slate composition, internship programs, and interview selection processes. Acting EEOC Chair Andrea Lucas prioritizes enforcement against "unlawful DEI-motivated race and sex discrimination".

Source: [EEOC and DOJ Release Guidance on DEI and Workplace Discrimination](#)

Nonprofit Unionization Momentum Continues Despite Economic Pressures

Interest in nonprofit unionization remains high in 2025, with federal funding disruptions potentially increasing union organizing among nonprofit staff. Nonprofit Professional Employees Union continues recruiting organizations seeking collective bargaining for higher pay, better

benefits, and workplace voice. Younger workers are driving unionization efforts as almost half of nonprofit workforce falls between ages 25-44, with politically progressive employees viewing organizing favorably. Organizations face potential disruption as union formation creates management challenges requiring new approaches to employee relations and governance.

Source: [How Unionization is Impacting the Nonprofit World](#)

Nonprofit Phishing Attacks Surge 35% with AI-Enhanced Threats

Email-based threats against nonprofits increased 35.2% over the past year, targeting donor data and financial transactions through sophisticated social engineering. Cybercriminals use AI to automate phishing campaigns and evade detection tools, with 27% of nonprofits worldwide falling victim to cyberattacks in 2023. Small nonprofits are particularly vulnerable as hackers view them as "low-hanging fruit" due to limited security measures and underfunded cybersecurity infrastructure. Organizations must implement multi-factor authentication, employee training, and email filtering solutions to combat evolving AI-powered phishing schemes.

Source: [Nonprofits Face Surge in Cyber-Attacks as Email Threats Rise 35%](#)

U.S. Senate Confirms Joseph Edlow as USCIS Director with Immediate Impact on Immigration Processing

The Senate confirmed Joseph Edlow as USCIS Director with a 52-47 vote, bringing his restrictionist immigration philosophy to agency leadership. Nonprofits serving immigrant populations face stricter immigration processing policies, enhanced fraud detection measures, and potential delays in visa and naturalization applications affecting their workforce and client services under Edlow's leadership.

Source: [USCIS - Joseph B. Edlow Begins Service as Director](#)

IRS Developments

IRS Declares Churches Can Endorse Political Candidates Without Tax Exemption Loss

The Internal Revenue Service filed a court document stating churches can endorse political candidates to congregations without risking tax-exempt status, effectively ending 70 years of Johnson Amendment enforcement. This impacts religious nonprofits seeking greater political engagement while maintaining federal tax benefits and could influence donation patterns and advocacy activities.

Source: [The Conversation - IRS says churches may endorse political candidates despite a decades-old federal statute](#)

Business Tax Account Users Face July 31 Revalidation Deadline

The IRS issued Fact Sheet 2025-04 on July 23, 2025, reminding Business Tax Account (BTA) users that Designated Officials must revalidate their accounts by July 31 to maintain access. This deadline affects nonprofits using BTA for tax account management and could result in service disruptions if not completed timely. Organizations must ensure their designated officials complete revalidation to avoid losing access to critical tax account functions and creating potential compliance challenges during busy filing periods.

Source: [IRS Fact Sheet 2025-04](#)

Executive Compensation Excise Tax Expands to All Employees

The new legislation expands Section 4960 excise tax coverage from the top five highest-paid employees to all employees and former employees earning over \$1 million in compensation. This dramatic expansion significantly increases potential excise tax liability for applicable tax-exempt organizations and requires comprehensive review of compensation structures. Nonprofits must evaluate their employee compensation packages and separation agreements to understand the broader financial impact of this expanded coverage.

Source: [GRF CPA Analysis](#)

Energy Community Tax Credit Areas Updated

IRS released updated Appendix 3 listing counties qualifying as energy communities for clean energy tax credits, using 2024 unemployment rates released April 18, 2025. This update affects nonprofits in eligible areas seeking to claim clean energy investment credits and may impact facility improvement planning. Organizations should verify their location status under the updated criteria to maximize available tax credit opportunities for energy-efficient upgrades and renewable energy investments.

Source: [Internal Revenue Bulletin 2025-28](#)

IRS Leadership Changes Continue Under New Administration

Recent IRS news releases indicate ongoing leadership transitions following Commissioner Billy Long's confirmation, with various operational changes affecting nonprofit oversight and customer service functions. These leadership changes may result in policy shifts affecting nonprofit examination priorities, customer service approaches, and compliance emphasis areas. Organizations should monitor IRS communications for updated guidance and procedural changes that may emerge from the new administrative leadership structure.

Source: [IRS Current Month News Releases](#)

State Nonprofit News Roundup

● **Florida Restricts Foreign Donations to Nonprofits Effective July 1**

Florida's Senate Bill 700 prohibits nonprofits registered to solicit donations from accepting contributions from individuals or entities associated with "foreign countries of concern," including China, Russia, Iran, North Korea, Cuba, Venezuela, and Syria. The law creates an "Honest Services Registry" for compliant organizations and requires attestations of compliance. Nonprofits must implement donor screening processes and risk civil penalties, cease-and-desist orders, and potential criminal charges for knowing violations.

Source: [Holland & Knight Analysis](#)

● **California AI Employment Discrimination Regulations Take Effect October 2025**

California Civil Rights Council approved final regulations on June 27, 2025, prohibiting employment discrimination through automated-decision systems, effective October 1, 2025. Regulations broadly define "automated-decision system" as any computational process making or facilitating employment decisions, requiring nonprofits using AI tools for recruitment, hiring, promotion, or evaluation to ensure non-discrimination. Organizations must conduct anti-bias testing, maintain four-year record retention for AI employment data, and demonstrate job-relatedness for selection criteria. Nonprofits face liability if vendors' AI systems create discriminatory outcomes, requiring contract reviews and compliance protocols.

Source: [California Civil Rights Department - AI Employment Discrimination Regulations](#)

● **Vermont Salary Disclosure Requirements Begin July 1**

Vermont's Act 155 requires employers with five or more employees to include good-faith wage ranges in job advertisements for Vermont-based positions effective July 1, 2025. The law covers positions physically located in Vermont or performed remotely for Vermont offices. Organizations must disclose base wages for tipped positions and commission-based structures, with enforcement by the Vermont Attorney General creating new compliance obligations for nonprofits operating in or hiring from Vermont.

Source: [HR Morning Compliance Guide](#)

● **Nonprofits Lead Ongoing Texas Flood Recovery Efforts Following July 4 Disaster**

Nonprofit organizations continue spearheading recovery efforts across Central Texas following devastating July 4 floods that killed over 130 people, prompting one of the largest relief operations in recent state history. Organizations including Team Rubicon, Salvation Army, World Central Kitchen, and American Red Cross deployed hundreds of volunteers providing debris removal, home repairs, emergency shelter, and food services at no cost. The Community Foundation of the Texas Hill Country coordinates vetted organizations delivering assistance to affected communities, while specialized nonprofits provide volunteer divers and mobile kitchens, demonstrating the sector's critical disaster response capacity.

Source: [Team Rubicon - How to Help Texas Flood Victims and Survivors](#)

Nonprofit Healthcare Organizations Face Immediate Funding Restrictions

The budget legislation prohibits Medicaid payments to 501(c)(3) nonprofit organizations providing abortions outside Hyde exceptions if they received \$800,000 or more in payments in 2023, effective immediately for one year. Healthcare nonprofits also face new barriers through elimination of streamlined Medicare Savings Program access, potentially affecting 1.4 million low-income Medicare beneficiaries. California projections estimate 3.4 million residents could lose coverage over 10 years, with 1.4 million potentially losing Medi-Cal in the first year due to paperwork challenges rather than actual ineligibility.

Source: [CalMatters - Federal Budget Health Care Impact](#)

Indiana Enacts Comprehensive Cybersecurity Requirements for Public Entities

Indiana Governor Mike Braun signed Senate Enrolled Act 472 into law May 1, 2025, effective July 1, requiring public entities including nonprofits to adopt cybersecurity policies based on state guidelines by December 2027. Organizations must implement technology resource use policies, report cybersecurity incidents within two business days of discovery, and submit cybersecurity policies to the Indiana Office of Technology every odd-numbered year starting in 2027. The law affects state agencies, political subdivisions, and educational institutions, creating new compliance obligations for nonprofits operating in Indiana.

Source: [Frost Brown Todd - Indiana's New Cybersecurity Requirements](#)

About Nonprofit Management Navigator

[Nonprofit Management Navigator](#) is a trade name of PMG46, LLC doing business as Nonprofit Management Navigator. Nonprofit Management Navigator provides this complimentary weekly subscription service designed for nonprofit leaders. This essential resource provides curated news updates on the legal, regulatory, and operational developments impacting organizations, saving executives time while keeping them informed about the important changes directly impacting their organizations. In addition to timely news, Nonprofit Management Navigator also offers in-depth reports and practical management guidance to help leaders navigate an increasingly unpredictable operating environment. What makes Nonprofit Management Navigator particularly valuable is its commitment to accessibility---the entire service is available as a complimentary subscription, ensuring critical operational intelligence reaches nonprofit leaders regardless of budget limitations during these chaotic regulatory times.

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