

Abstract

The nonprofit sector begins 2026 confronting an unusually volatile operating environment shaped by sweeping federal budget proposals, intensified enforcement activity, shifting workforce regulations, major tax law changes, and a growing wave of state-level compliance developments. This January 26 Navigator News Update highlights a possible second federal government shutdown, expanded False Claims Act enforcement targeting federally funded organizations, new human resources compliance risks, significant IRS and charitable giving rule changes, and emerging state privacy, wage, and registration requirements. Together, these developments signal a fundamental shift in the regulatory and financial landscape facing nonprofit leaders. This update provides curated, practical summaries designed to help executives, board members, and advisors quickly identify the developments requiring immediate attention, organizational response, or strategic monitoring as they navigate a rapidly evolving and increasingly complex operating environment.

January 26, 2026 Navigator News Update: Including Possible Second Federal Government Shutdown, False Claims Act Enforcement Expansion and More!

From Nonprofit Management Navigator

Please see *Understanding This Information and Disclaimer* at the conclusion of the article

FREE SPECIAL REPORT

The DAF Dilemma: Why One-Size-Fits-All Guidance Fails Nonprofits—Download This Free Special Report

For nonprofit development professionals, guidance about donor-advised funds has emphasized a consistent message: organizations can benefit from cultivating DAF support. Conference sessions explore implementation strategies. Sponsors offer educational resources about enhancing organizational visibility. Consulting firms provide specialized services. The underlying premise is that organizations not engaging with DAFs may miss opportunities that peers are capturing.

Does this guidance apply equally across all organizational contexts? Or do the benefits and costs of intensive DAF cultivation vary systematically based on organizational characteristics in ways that merit closer examination? This Special Report explores the pros and cons of DAF cultivation across different organization sizes.

Download the Special Report At: <https://nonprofitmanagementnavigator.com/>

Introduction

Nonprofit leaders begin 2026 facing one of the most challenging and uncertain operating climates in recent memory. The deadline for a possible second federal government shutdown is just days away, while enforcement agencies expand the use of powerful fraud and civil liability statutes in ways that directly affect organizations receiving government funding. At the same time, workforce management grows more complex as employment standards, benefit enforcement priorities, and accommodation rules continue to evolve.

Tax law changes are reshaping charitable giving incentives, donor behavior, and compliance obligations, requiring new donor education strategies and heightened financial oversight. Across the states, privacy laws, wage mandates, registration systems, and contracting reforms introduce additional layers of operational risk and opportunity.

This January 26 Navigator News Update brings together the most important nonprofit-relevant developments from across federal policy, human resources, tax and accounting, and state regulation. Each summary highlights not only what has changed, but what nonprofit leaders should consider doing now to protect funding, ensure compliance, strengthen governance, and position their organizations for resilience in an increasingly unpredictable regulatory environment.

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 and Federal Regulatory Developments

Executive Summary: Federal funding, enforcement, and regulatory risk now dominate the nonprofit operating environment as 2026 begins. The deadline for a possible second federal government shutdown is just days away, while expanded Department of Justice fraud

enforcement and novel False Claims Act theories sharply increase compliance and litigation exposure for federally funded organizations. Additional instability stems from the lingering possibility of another government shutdown, abrupt grant terminations and reversals, new accountability rules in higher education, and aggressive agency oversight initiatives. Together, these developments signal heightened funding volatility, enforcement risk, and governance responsibility that nonprofit leaders must address immediately through strengthened compliance systems, contingency planning, and board-level oversight.

Key Actions for This Section:

Organizations should take immediate steps to protect funding, manage enforcement exposure, and strengthen governance oversight:

- Review federal funding streams and prepare contingency plans for possible shutdowns, freezes, or grant terminations
 - Conduct compliance audits of grant certifications, civil rights statements, and DEI-related representations
 - Strengthen internal controls, documentation, and whistleblower reporting procedures
 - Brief boards on heightened False Claims Act and fraud enforcement risks
 - Evaluate exposure for programs dependent on federal student aid, behavioral health funding, and HHS grants
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January 30 Funding Deadline Threatens Another Partial Government Shutdown

Federal agencies face another potential partial shutdown as the continuing resolution expires January 30, 2026, with Congress scrambling to finalize nine remaining appropriations bills. While three bills received full-year funding in November, most government operations—including HHS and the Department of Education—continue under temporary flat funding. Congressional leaders released final spending measures January 20, but tight timelines and remaining disagreements create significant uncertainty. For nonprofits, another shutdown could delay grant payments, disrupt services, and force organizational contingency planning during an already challenging funding environment.

Source: <https://www.cbsnews.com/news/lawmakers-final-spending-package-fund-government-deadline-partial-shutdown/>

Nonprofits Face Unprecedented Operating Challenges in 2026

Nonprofits enter 2026 confronting severe challenges: federal funding cuts and delays, intense competition for diminishing donor dollars, widespread staff burnout and retention crises, and leadership turnover amid shallow succession pipelines. Organizations face growing community needs while managing heavier compliance demands, political interventions, and regulatory uncertainty. Experts emphasize investing in digital infrastructure, scenario planning, diversified

revenue streams, and transparent financial storytelling. Success requires adaptive leadership balancing mission focus with financial sustainability. Organizations strengthening donor relationships, modernizing systems, and maintaining community connections will demonstrate greatest resilience through this volatile period.

Source: <https://www.gma-cpa.com/blog/2026-nonprofit-outlook-key-challenges-trends-strategies-for-the-year-ahead>

Strategic Opportunities Emerge for Nonprofits Embracing Digital Transformation

Despite challenges, 2026 presents opportunities for forward-thinking nonprofits. AI-powered donor management, automated fundraising processes, and online giving platforms offer new revenue pathways and operational efficiencies. Mergers, affiliations, and shared services can reduce overhead while expanding reach. The new universal charitable deduction for non-itemizers (\$1,000 individual/\$2,000 joint) creates opportunities to engage broader donor bases. Organizations investing strategically in technology, demonstrating measurable impact, and maintaining strong community connections can strengthen their positions. Digital transformation enables nonprofits to do more with constrained resources while building sustainable funding models.

Source: <https://www.wipfli.com/insights/articles/2026-nonprofit-trends-time-for-a-digital-transformation>

Trump Administration Creates DOJ Fraud Enforcement Division Targeting Nonprofits

The White House announced during early the establishment of a new Department of Justice division for national fraud enforcement with unprecedented direct supervision by the President and Vice President. The division will investigate federal fraud targeting government programs, businesses, and nonprofits using the False Claims Act and multi-agency coordination. Initially focused on Minnesota fraud allegations, the scope includes investigating organizations receiving federal funds for DEI practices, alleged misuse of tax-exempt status, and "domestic terrorism networks." For nonprofits receiving federal funding, this signals dramatically heightened enforcement scrutiny, broader fraud theories, and expanded due diligence requirements.

Source: <https://www.whitehouse.gov/fact-sheets/2026/01/fact-sheet-president-donald-j-trump-establishes-new-department-of-justice-division-for-national-fraud-enforcement/>

DOJ Launches False Claims Act Investigations of Organizations' DEI Programs

The Department of Justice initiated False Claims Act investigations targeting federal fund recipients maintaining diversity, equity, and inclusion programs. DOJ alleges that organizations

with DEI policies while receiving federal funding made false certifications of civil rights law compliance, exposing them to treble damages and penalties. Investigations already include major corporations and reportedly extend to higher education, healthcare, and nonprofit sectors. Organizations must review all public-facing statements, grant applications, compliance certifications, and DEI program implementation to identify potential exposure. This enforcement represents a novel legal theory expanding FCA liability beyond traditional fraud scenarios.

Source: <https://www.mayerbrown.com/en/insights/publications/2026/01/doj-pursues-dei-investigations-of-federal-contractors>

DOJ Reports Record \$6.8 Billion in False Claims Act Recoveries

The Department of Justice announced January 16, 2026, that False Claims Act settlements and judgments exceeded \$6.8 billion in fiscal year 2025—the highest amount in FCA history and more than double FY 2024 recoveries. Whistleblower lawsuits reached a record 1,297 filings, with government-initiated investigations adding 401 cases. Healthcare fraud comprised \$5.7 billion (83%) of total recoveries, but enforcement expanded to cybersecurity compliance, customs fraud, and new areas including DEI programs. For nonprofits and contractors, this signals intensified enforcement scrutiny, broader fraud theories, increased whistleblower activity, and substantially elevated financial exposure across all federal funding relationships.

Source: <https://www.justice.gov/opa/pr/false-claims-act-settlements-and-judgments-exceed-68b-fiscal-year-2025>

HHS Freezes \$10 Billion in Childcare and Social Services Funding

The Department of Health and Human Services froze \$10 billion in federal childcare and family assistance funding for California, Colorado, Illinois, Minnesota, and New York on January 6, 2026, citing fraud concerns. The freeze affects Child Care and Development Fund (\$2.4 billion), Temporary Assistance for Needy Families (\$7.35 billion), and Social Services Block Grant (\$870 million) programs. States must now submit justification and receipts before receiving payments under HHS's expanded "Defend the Spend" system. Organizations providing childcare and family services face immediate operational uncertainty, potential program closures, and need for emergency contingency planning while awaiting federal review determinations.

Source: <https://www.hhs.gov/press-room/hhs-freezes-child-care-family-assistance-grants-five-states-fraud-concerns.html>

Education Department Finalizes Earnings Test Threatening Direct Loan Eligibility

The Department of Education reached consensus January 2026 on new accountability regulations requiring nonprofit higher education programs to meet earnings premium thresholds or lose Direct Loan eligibility. Programs failing the test twice within three consecutive years lose federal loan access, with first calculations occurring early 2027 and potential eligibility loss beginning July 2028. The final rule, effective July 1, 2026, requires institutions to monitor program-level earnings outcomes and notify students when programs face loan eligibility risks. Nonprofits must evaluate vulnerable programs, establish monitoring systems, and potentially restructure or eliminate low-earning programs to maintain federal student aid access.

Source: <https://www.naicu.edu/news-events/washington-update/2026/january-16/ed-reaches-consensus-on-negotiated-rulemaking-on-accountability/>

HHS Reverses \$2 Billion SAMHSA Grant Terminations After 24-Hour Crisis

The Department of Health and Human Services abruptly terminated approximately 2,000 mental health and substance abuse grants totaling \$2 billion on January 13, 2026, only to reverse course within 24 hours following widespread outrage. Organizations providing critical services—from opioid treatment to college behavioral health training—received late-night termination notices citing "non-alignment with SAMHSA priorities" with no additional explanation. While funding was restored January 14, nonprofits face profound uncertainty about program stability and potential future disruptions. Many organizations had already begun emergency layoffs and service closures. This volatility threatens organizational planning and staff retention in behavioral health services.

Source: <https://www.govexec.com/management/2026/01/dueling-hhs-reversals-whipsaw-federal-employees-grant-recipients/410684/>

Nonprofit Boards Establish AI Ethics Committees as Governance Priority

January 2026 sector reports indicate AI adoption has moved from IT departments to boardrooms, with boards now tasked with creating dedicated "AI Ethics" committees to monitor data bias and mission drift in AI-driven resource allocation. Governance experts emphasize that failure to oversee AI-driven data security could result in reputational harm, making AI governance a core component of board risk management registers alongside traditional financial oversight. This shift reflects growing expectations for board members to possess technical literacy and maintain proactive oversight of emerging technologies affecting organizational operations and stakeholder data.

Source: <https://www.onboardmeetings.com/blog/nonprofit-board-news-january-2026-responding-to-rapid-change/>

Nonprofit Human Resources Developments

Executive Summary: Workforce management emerges as a central operational risk for nonprofits entering 2026. Federal agencies are reshaping overtime, classification, accommodation, and harassment enforcement standards, while benefit plan oversight priorities shift sharply toward cybersecurity and mental health parity compliance. At the same time, volunteer engagement patterns continue to evolve, insurance markets reflect rising governance risk, and demographic reporting standards expand. Together, these developments increase compliance complexity, litigation exposure, and administrative burden for nonprofit employers, requiring strengthened human resources governance, careful policy review, and enhanced coordination among legal, HR, and executive leadership.

Key Actions for This Section:

Organizations should strengthen workforce compliance systems and governance oversight:

- Review employee classification, overtime policies, and bonus structures in light of new DOL opinion letters
- Audit accommodation procedures and documentation for disability and mental health leave requests
- Reassess harassment and workplace conduct policies in anticipation of shifting EEOC enforcement guidance
- Review D&O insurance coverage, exclusions, and Side A protections for board members
- Update volunteer engagement strategies to reflect flexible, skills-based participation trends
- Prepare HR systems for expanded race and ethnicity data collection standards

2026 HR Developments Reshape Nonprofit Workforce Management Strategies

Human resources trends for 2026 emphasize artificial intelligence integration, skills-based workforce planning, mental health infrastructure, and pay transparency mandates. Nonprofits face talent competition from expanding contingent workforce models while managing declining volunteerism and leadership pipeline gaps. Organizations must adapt to return-to-office tensions, increased compliance complexity, and employee expectations for personalized development and flexible benefits. Strategic HR planning requires balancing cost constraints with investment in technology, training programs, and retention initiatives to maintain mission delivery capacity.

Source: <https://www.shrm.org/topics-tools/news/hr-trends>

D&O Insurance Trends Reflect Rising Risks for Nonprofit Boards

Directors and officers liability insurance for nonprofits faces evolving pressures in 2026 including increased claim frequency approaching pre-pandemic levels, heightened scrutiny of cybersecurity oversight, increasing litigation risks, and DEI policy challenges. While competition among insurers may stabilize pricing (typically 0.03-2% of coverage limits), policies increasingly include restrictive exclusions particularly for cyber-related claims. Coverage averaging \$35,000 per claim protects board members from employment disputes, fiduciary duty breaches, and regulatory violations. Nonprofits should review Side A coverage for personal protection, confirm adequate policy limits, and understand how policies respond to emerging risks including regulatory investigations and reputational challenges.

Source: <https://commercial.allianz.com/news-and-insights/news/directors-and-officers-insurance-insights-2026.html>

Volunteer Engagement Rebounds But Demands New Nonprofit Strategies

Formal volunteering increased to 28.3 percent in 2023, rebounding from pandemic lows, but participation patterns fundamentally shifted. Volunteers now prefer short-term, flexible, skills-based, and hybrid opportunities over traditional long-term commitments. The economic value of volunteer time reached \$34.79 per hour, contributing an estimated \$167.2 billion annually. Nonprofits facing workforce shortages must redesign volunteer programs with modular roles, clear task descriptions, and digital coordination tools. Organizations that adapt volunteer management to accommodate evolving expectations will sustain operational capacity amid persistent staffing challenges.

Source: <https://www.signupgenius.com/blog/state-of-volunteering-2025>

DOL Clarifies Employer Discretion in Employee Classification Decisions

The January 2026 DOL opinion letters confirm employers retain complete discretion to classify employees as nonexempt even when they meet all criteria for overtime exemptions. The FLSA prohibits misclassifying nonexempt workers as exempt but does not require claiming available exemptions. Nonprofits facing variable workload patterns or seeking administrative simplicity can voluntarily treat qualifying professionals as nonexempt and pay overtime. This flexibility helps manage compensation uncertainty while ensuring compliance with minimum wage and overtime requirements.

Source: <https://natlawreview.com/article/new-year-new-views-dol-opinion-letters-flsa-and-fmla-provide-employers-helpful>

DOL Opinion Letter Addresses Compensability of Mandatory Pre-Shift Activities

A January 5, 2026 opinion letter clarifies that mandatory pre-shift roll calls required by collective bargaining agreements constitute compensable work time under the FLSA. Even activities typically excluded as preliminary must be counted when contractually mandated. The guidance affects nonprofits with unionized workforces or established pre-shift routines like safety briefings or equipment checks. Organizations must evaluate whether mandatory preliminary activities create overtime obligations and consider exemption provisions for specific collective bargaining agreement structures.

Source: <https://www.spencerfane.com/insight/dol-rings-in-new-year-with-six-opinion-letters-interpreting-flsa-and-fmla/>

DOL Issues Six Opinion Letters on FLSA Compliance and Overtime Rules

On January 5, 2026, the Department of Labor's Wage and Hour Division released six opinion letters clarifying critical employment standards. The guidance addresses whether employers can reclassify exempt employees as nonexempt, how nondiscretionary bonuses must be included in overtime calculations, and compensation requirements for pre-shift activities. Nonprofits must review their classification decisions, bonus structures, and overtime practices to ensure compliance with these interpretations, as violations can result in significant back pay liability and penalties.

Source: <https://www.hklaw.com/en/insights/publications/2026/01/dol-issues-six-new-opinion-letters-on-flsa-and-fmla-compliance>

DOL Rescinds Nondisplacement Regulations for Federal Service Contractors

Effective December 22, 2025, the Department of Labor rescinded regulations requiring successor contractors to offer right of first refusal to predecessor contract employees. This final rule removes requirements established under Executive Order 14055 following its revocation by Executive Order 14148 on January 20, 2025. Nonprofits serving as federal service contractors gain greater staffing flexibility but lose worker retention protections. Organizations must reassess succession planning and workforce transition strategies when bidding on or inheriting federal service contracts.

Source: <https://www.federalregister.gov/documents/2025/12/22/2025-23626/nondisplacement-of-qualified-workers-under-service-contracts-rescission-of-regulations>

EEOC Initiates Process to Rescind 2024 Harassment Guidance

Following political shifts in January 2026, the Equal Employment Opportunity Commission began procedures to rescind its comprehensive 2024 Enforcement Guidance on Harassment in the Workplace. The agency removed procedural safeguards on January 16, enabling faster policy changes without traditional commissioner review periods. Nonprofits face uncertainty about enforcement standards for harassment complaints, particularly regarding gender identity and religious accommodation issues, requiring careful consultation with legal counsel when updating workplace policies.

Source: <https://www.hrdive.com/news/eeoc-quashes-oversight-procedures-biden-era-policy/809906/>

EEOC Settlement Highlights Mental Health Leave as Reasonable Accommodation

On January 8, 2026, the EEOC announced a \$160,000 settlement with Peak Performers, a nonprofit staffing agency serving workers with disabilities. The case involved denial of unpaid leave to an employee seeking mental health treatment following a suicide attempt. The settlement underscores that mental health conditions qualify for ADA protection and short-term medical leave constitutes a reasonable accommodation. Nonprofits must establish clear processes for evaluating accommodation requests, particularly for mental health-related disabilities, to avoid discrimination claims.

Source: <https://www.eeoc.gov/newsroom/peak-performers-pay-160000-eeoc-disability-lawsuit>

Walmart Settlement Demonstrates Risks of Revoking Disability Accommodations

The EEOC announced on January 12, 2026, a \$60,000 settlement with Walmart for discontinuing longstanding accommodations and terminating an employee with cognitive, hearing, and speech impairments. New management revoked accommodations that had enabled successful job performance since 2017, leading to a conflict and termination for insubordination. The case highlights ADA risks when management changes result in accommodation rollbacks. Nonprofits must document accommodation decisions and ensure continuity during leadership transitions to prevent discrimination liability.

Source: <https://www.eeoc.gov/newsroom/walmart-pay-60000-eeoc-disability-discrimination-lawsuit>

OMB Extends Deadline for Federal Race and Ethnicity Data Collection Standards

The Office of Management and Budget extended compliance deadlines for updated race and ethnicity data standards on September 26, 2025. Federal agencies including the EEOC must now

submit Action Plans by March 28, 2026, with full implementation extended to September 28, 2029. The revised standards add Middle Eastern or North African as a category and combine race and ethnicity into a single question. Nonprofits should monitor EEOC guidance on EEO-1 reporting changes and prepare systems for enhanced demographic tracking requirements.

Source: <https://ogletree.com/insights-resources/blog-posts/omb-extends-deadlines-on-race-ethnicity-data-overhaul/>

EBSA Announces Major Shift in Employee Benefit Plan Enforcement Priorities

On January 15, 2026, the Employee Benefits Security Administration unveiled overhauled national enforcement projects for fiscal year 2026. New priorities emphasize cybersecurity threats, mental health and substance use disorder benefit barriers, retirement asset management, surprise billing compliance, and criminal abuse of contributory plans. Nonprofits sponsoring ERISA-covered benefit plans must strengthen cybersecurity protections, review mental health parity compliance, and ensure proper oversight of retirement plan assets to avoid heightened enforcement scrutiny.

Source: <https://www.napa-net.org/news/2026/1/ebsa-announces-shift-in-enforcement-priorities-for-fy-2026/>

IRS, Accounting & Finance Developments

Executive Summary: Tax law changes, expanded IRS enforcement initiatives, and major compliance rule updates fundamentally reshape the financial and regulatory landscape for nonprofits entering 2026. New charitable deduction limits, donor-advised fund restrictions, expanded Qualified Charitable Distribution opportunities, and filing season changes alter donor behavior and fundraising strategy. At the same time, IRS modernization initiatives expand electronic correspondence and filing mandates, while criminal investigation restructuring and revived group exemption rules significantly heighten compliance and governance risk. Together, these developments require nonprofits to strengthen donor education, update tax compliance systems, enhance internal controls, and ensure board-level oversight of emerging enforcement and reporting obligations.

Key Actions for This Section:

Organizations should prioritize financial compliance readiness and donor communication strategies:

- Educate donors and development staff on new charitable deduction limits, QCD advantages, and DAF rule changes

- Review electronic filing systems and ensure Forms 990, schedules, and correspondence processes meet expanded IRS mandates
 - Strengthen internal controls and documentation in anticipation of heightened IRS criminal investigation referrals
 - Review group exemption structures and prepare for new annual reporting and supervision requirements
 - Update volunteer reimbursement and donor substantiation policies based on new mileage and reporting rules
 - Brief finance committees and boards on expanded enforcement risks and modernization initiatives
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2026 Filing Season Opens with New Tax Law Provisions Affecting Charitable Giving

The IRS announced Monday, January 26, 2026 as the opening of the 2026 filing season with several One, Big, Beautiful Bill Act provisions taking effect. Changes include new scholarship granting organization tax credits capped at \$1,700 for individuals and \$3,400 for married couples filing jointly, modified charitable deduction limitations with a 0.5% AGI floor and 35% deduction cap for high-income taxpayers, and expanded standard deductions reducing itemization rates. Nonprofits must educate donors about strategic giving approaches including QCDs, bunching strategies, and state-certified scholarship organization opportunities. The changes fundamentally alter tax incentives for charitable contributions requiring donor education and stewardship adjustments.

Source: <https://www.irs.gov/newsroom>

IRS Criminal Investigation Unit Overhaul Signals Intensified Nonprofit Scrutiny

Treasury Department leadership is restructuring the IRS Criminal Investigation division to expand examination of tax-exempt organizations, according to industry reports from November 2025. The overhaul enables targeted investigations into nonprofits' use of tax-deductible donations, potentially treating certain activities as impermissible support exceeding charitable purposes. Nonprofits face heightened criminal investigation referral risks from civil audits, whistleblower complaints, and perceived policy violations. Organizations must strengthen compliance programs, maintain rigorous internal controls ensuring funds align with exempt purposes, and consider whether questionable activities warrant self-reporting to mitigate prosecution exposure.

Source: <https://www.wealthmanagement.com/philanthropy/nonprofits-facing-higher-security-based-on-irs-criminal-investigation>

IRS Scam Awareness Critical as Criminals Target Tax-Exempt Organizations

The IRS and Federal Trade Commission warned in January 2026 about intensifying phone scams targeting taxpayers with fake tax debt claims from fraudulent agencies demanding immediate payment via gift cards or wire transfers. The IRS never initiates contact via phone, email, or text demanding immediate payment and always sends initial notices by postal mail. Tax-exempt organizations must train staff to recognize impersonation tactics including spoofed caller IDs displaying IRS phone numbers and threatening arrest or license revocation. Organizations receiving suspicious communications should report them to phishing@irs.gov and never provide sensitive information until verifying legitimacy through official IRS channels.

Source: <https://consumer.ftc.gov/consumer-alerts/2026/01/hang-unexpected-calls-saying-you-owe-back-taxes-those-are-scams>

IRS Digital Modernization Expands Electronic Notice Delivery for Exempt Organizations

The IRS is broadening digital notice delivery systems, allowing tax-exempt organizations to receive certain determinations and correspondence electronically rather than by postal mail beginning in 2026. Digital notices arrive faster, reduce lost mail risks, and provide more timely opportunities to respond before penalties accrue. The modernization includes enhanced online account features and expanded e-filing requirements beyond Forms 990 to additional schedules and supporting documentation. Nonprofits must establish reliable digital filing systems, confirm provider platforms support newest requirements, and update internal procedures to monitor electronic communications preventing missed deadlines or compliance lapses.

Source: <https://990reasons.com/irs-digital-modernization-update-what-nonprofits-should-know-for-2026/>

Qualified Charitable Distributions Gain Strategic Importance Under New Tax Rules

The 2026 QCD limit increased to \$111,000 per individual, offering enhanced tax-efficiency as new charitable deduction restrictions take effect. Beginning in 2026, itemized charitable deductions face a 0.5% AGI floor and high-income taxpayers encounter a 35% deduction cap. QCDs bypass both limitations by excluding IRA distributions from taxable income entirely, making them increasingly valuable for donors aged 70½ and older. Nonprofits should educate major donor prospects about QCD advantages including avoiding higher tax brackets, satisfying required minimum distributions, and reducing Medicare premium calculations.

Source: <https://www.elliottdavis.com/insights/what-to-know-about-qualified-charitable-distributions-under-the-2026-tax-rules>

Tax Law Changes Reduce Donor-Advised Fund Deduction Benefits in 2026

The One Big Beautiful Bill Act introduces significant limitations on donor-advised fund tax benefits effective January 1, 2026. A new 0.5% adjusted gross income floor applies before any charitable deductions qualify, reducing deduction value by 7-10% for higher-income donors. Top bracket taxpayers face a 35% deduction cap (down from 37%). Most significantly, DAF contributions are excluded from the new universal charitable deduction available to non-itemizers, disadvantaging DAFs compared to direct gifts. While no new federal regulations specifically targeting DAF operations emerged, these tax law changes fundamentally alter the economic incentives for DAF contributions versus direct charitable giving.

Source: <https://www.donorperfect.com/nonprofit-technology-blog/fundraising-software/charitable-contributions-in-2026/>

2025 Compliance Supplement Release Enables Completion of Delayed Single Audits

OMB released the 2025 Compliance Supplement on November 25, 2025, after months of delay preventing single audit completion for fiscal years beginning after June 30, 2024. The supplement reflects 2024 Uniform Guidance revisions creating split requirements based on whether federal awards were issued before or after October 1, 2024. The single audit threshold increased to \$1,000,000 for fiscal year-ends September 30, 2025 and later, relieving many small nonprofits. Organizations must map each federal award to applicable guidance versions, maintain audit-ready documentation, and understand that first audits under the 2025 Supplement face March 31, 2026 deadlines with potential compressed timeframes.

Source: <https://www.federalregister.gov/documents/2025/11/26/2025-21172/uniform-administrative-requirements-cost-principles-and-audit-requirements>

Revenue Procedure 2026-5 Updates Determination Letter Procedures for Tax-Exempt Status

Published in Internal Revenue Bulletin 2026-01 effective January 1, 2026, Revenue Procedure 2026-5 establishes updated procedures for issuing determination letters on tax-exempt status under IRC Sections 501 and 521. The procedure sets forth modernized application processes, user fee requirements, and exhaustion of administrative remedies for declaratory judgments under Section 7428. Nonprofits applying for recognition of exemption must comply with revised submission requirements and documentation standards to obtain determination letters from the Exempt Organizations Rulings and Agreements Office.

Source: https://www.irs.gov/irb/2026-01_IRB

Form 990 Electronic Filing Mandate Expands for 2026 Tax Years

The Taxpayer First Act Section 2301 requires exempt organizations to electronically file Forms 990, 990-EZ, and 990-PF for tax years ending July 31, 2021, and later, with limited exceptions. Electronic filing is restricted to current and two prior tax periods, with the IRS no longer accepting electronically filed returns for years 2020 and older as of December 26, 2023. Organizations filing paper returns for older periods must note the electronic filing deadline passage. Nonprofits must ensure authorized e-file providers and software comply with IRS transmission standards to avoid rejection of incomplete or incorrect returns.

Source: <https://www.irs.gov/charities-non-profits/annual-filing-and-forms>

Three-Year Filing Failure Results in Automatic Tax-Exempt Status Revocation

Organizations failing to file required Forms 990, 990-EZ, 990-PF, or 990-N for three consecutive years face automatic tax-exempt status revocation without additional IRS notice. Revoked organizations lose eligibility to receive tax-deductible contributions, must pay corporate income tax on revenues, and appear on the IRS's published revocation list accessible to donors and grantmakers. Reinstating exemption requires filing applications for recognition under current standards, paying applicable user fees, and potentially owing back taxes for the revocation period. Nonprofits must implement board-level oversight ensuring timely filing compliance, as late filing penalties and reasonable cause exceptions cannot prevent automatic revocation.

Source: <https://www.councilofnonprofits.org/running-nonprofit/administration-and-financial-management/federal-filing-requirements-nonprofits>

IRS Resumes Accepting Group Exemption Applications After Four-Year Hiatus

Revenue Procedure 2026-8, effective January 20, 2026, modernizes group tax exemption procedures for the first time since 1980. The IRS now requires electronic filing, mandates central organizations maintain at least five subordinates, and establishes annual reporting obligations to maintain group exemption letters. Organizations with preexisting group exemptions have until January 22, 2027, to comply with new mandates. Nonprofits seeking group status must prepare for enhanced oversight requirements including annual subordinate verification and general supervision documentation.

Source: <https://www.currentfederaltaxdevelopments.com/blog/2026/1/15/analysis-of-revenue-procedure-2026-8-the-modernized-framework-for-group-tax-exemptions>

Charitable Mileage Rate Remains Frozen While Business Rate Increases to 72.5 Cents

Notice 2026-10 establishes 2026 standard mileage rates effective January 1, with the charitable service rate remaining statutorily frozen at 14 cents per mile while the business rate increased to 72.5 cents per mile. This widening 58.5-cent disparity creates volunteer reimbursement challenges for nonprofits unable to cover actual costs, potentially deterring volunteer participation. The charitable rate has remained unchanged since 2011 despite inflation increasing vehicle operating costs substantially. Nonprofits must weigh inadequate reimbursement against volunteer recruitment and retention needs while ensuring compliance with substantiation requirements.

Source: <https://www.irs.gov/newsroom/irs-sets-2026-business-standard-mileage-rate-at-725-cents-per-mile-up-25-cents>

Health Savings Account Eligibility Expands Under New Tax Law Changes

Internal Revenue Bulletin 2026-02 published January 5, 2026, contains Notice 2026-5 providing guidance on Health Savings Account changes enacted in the One, Big, Beautiful Bill Act. The notice clarifies that bronze health plans now qualify as high-deductible health plans for HSA purposes and provides guidance on Direct Primary Care Service Arrangements qualifying as preventive care. Nonprofits offering employee health benefits should review plan designs to determine whether employees gain HSA eligibility under expanded definitions. The 2026 annual HSA contribution limits increased to \$4,400 for self-only coverage and \$8,750 for family coverage.

Source: https://www.irs.gov/irb/2026-02_IRB

IRS Publishes January 2026 Applicable Federal Rates and Foreign Government Income Rules

Internal Revenue Bulletin 2026-03 issued January 12, 2026, contains Revenue Ruling 2026-2 setting forth applicable federal rates for January 2026 affecting nonprofit organizations' below-market loans, charitable gift annuities, and pooled income funds. The bulletin also includes final regulations on foreign government taxation affecting international nonprofits. Organizations must apply these rates when calculating imputed interest on loans to officers, directors, or related parties. Nonprofits with split-interest charitable gift arrangements should consult advisors to ensure compliance with current AFR calculations for determining charitable deductions.

Source: https://www.irs.gov/irb/2026-03_IRB

State Nonprofit News

Executive Summary: State-level developments continue to expand the compliance and operating landscape for nonprofits entering 2026. Several new or newly effective privacy laws explicitly exempt nonprofits—reducing compliance burden—while other state actions increase operational requirements through wage mandates, filing system changes, donor privacy protections, and nonprofit contracting reforms. At the same time, states are updating charity registration portals and filing rules in ways that can trigger delinquency designations or rejected filings if organizations do not adapt quickly. Collectively, these developments require nonprofits to monitor state-specific administrative changes, update internal compliance processes, and coordinate with counsel and finance teams to avoid unintentional noncompliance and to identify new opportunities such as facility resilience funding.

Key Actions for This Section:

Organizations should take practical steps now to avoid state compliance surprises:

- Confirm charity registration status and renewal requirements in every state where you solicit donations
- Update internal compliance calendars for new portal processes, filing fees, and disclosure language changes
- Ensure corporate filings include newly required information (including email address requirements where applicable)
- Review donor privacy practices and confirm protections in states adopting donor information safeguards
- Adjust payroll systems for state minimum wage changes effective January 1, 2026
- Identify and pursue new state funding opportunities for property resilience and facility protection

Kentucky Consumer Data Protection Act Exempts Nonprofits from Privacy Obligations

The Kentucky Consumer Data Protection Act took effect January 1, 2026, establishing comprehensive consumer data privacy requirements for businesses but explicitly exempting nonprofit organizations from coverage. The law applies to entities controlling or processing data of at least 100,000 Kentucky consumers annually or at least 25,000 consumers while deriving over 50% of revenue from data sales. While nonprofits escape compliance burdens including data protection assessments, privacy notices, and consumer rights fulfillment, Kentucky joins 19 states with comprehensive privacy legislation granting residents rights to access, correct, delete, and opt out of targeted advertising.

Source: <https://www.wkyt.com/2025/12/22/kentucky-enacts-comprehensive-consumer-data-privacy-law/>

Indiana Consumer Data Protection Act Exempts Nonprofits While Protecting Residents

Indiana Consumer Data Protection Act took effect January 1, 2026, granting Indiana residents comprehensive consumer data rights including access, correction, deletion, data portability, and opt-out rights for targeted advertising and data sales. Nonprofit organizations are explicitly exempted from the law's requirements, avoiding compliance burdens imposed on businesses controlling or processing data of at least 100,000 Indiana consumers annually. However, nonprofits processing consumer data remain subject to other applicable laws. The Indiana Attorney General holds exclusive enforcement authority with civil penalties up to \$7,500 per violation following a permanent 30-day cure period.

Source: <https://www.lplegal.com/content/new-consumer-data-privacy-laws-and-rules-for-2026/>

Rhode Island Data Transparency Act Exempts Nonprofits But Imposes Strict Privacy Rules

Rhode Island Data Transparency and Privacy Protection Act took effect January 1, 2026, regulating for-profit entities collecting Rhode Island resident data while exempting nonprofit organizations from applicability. The law applies to entities controlling or processing personal data of at least 35,000 Rhode Island residents, or at least 10,000 residents while deriving 20% or more of revenue from data sales. Unlike many state privacy laws, Rhode Island provides no cure period for violations, with penalties up to \$10,000 per violation plus additional fines for intentional disclosures. Nonprofits avoid compliance requirements including data protection assessments, privacy notices, and consumer rights management.

Source: <https://www.datagrail.io/blog/regulations/what-you-need-to-know-about-rhode-islands-new-privacy-law/>

North Carolina Personal Privacy Protection Act Shields Nonprofit Donor Information

North Carolina Personal Privacy Protection Act (Session Law 2025-79) took effect December 1, 2025, prohibiting state and local government agencies from collecting or disclosing personal information identifying nonprofit donors, members, and volunteers. The law addresses First Amendment concerns from Americans for Prosperity Foundation v. Bonta Supreme Court decision, creating civil penalties of at least \$2,500 per violation or triple damages for intentional violations, plus criminal charges as Class 2 misdemeanors for knowing violations. Narrow exceptions exist for court orders, campaign finance reports, voluntary releases, and specific audits by Attorney General or Secretary of State where confidentiality is maintained.

Source: <https://www.ncleg.gov/EnactedLegislation/SessionLaws/PDF/2025-2026/SL2025-79.pdf>

Multiple States Update Charity Registration Portals Requiring Nonprofit Attention

Several states revised charity registration systems, filing fees, renewal processes, and disclosure requirements throughout 2025 affecting nonprofits entering 2026, with updated portals automatically classifying organizations as expired or delinquent if filings weren't completed in new systems. States periodically adjusted revenue thresholds determining financial reporting requirements, some shifting thresholds significantly for 2025-2026 periods. Nonprofits expanding online fundraising through websites, Giving Tuesday campaigns, crowdfunding platforms, or social media may trigger registrations in more states than realized. Organizations should confirm current registration status in all solicitation states, review financial reporting requirements based on recent annual revenue, and update solicitation templates with latest state-required disclosure language.

Source: <https://990reasons.com/state-charity-registration-compliance-update-what-nonprofits-should-review-before-2026/>

California Registry Extends Charity Filing Deadlines Through April 2026

California Registry of Charities and Fundraisers announced filing deadline relief for charities whose renewal filings were due between January 7, 2025 and April 30, 2026, extending the deadline to April 30, 2026 in advance of launching new Online Filing Service for all existing registrants in 2026. Charities need not contact the Registry to obtain this relief. The Registry continues honoring all IRS extensions for annual renewal filing deadlines including Forms RRF-1, CT-TR-1, and IRS Forms 990, 990-PF and 990-EZ. Organizations should use this extended period to prepare complete filings avoiding incomplete status designations. New registrants can now use Online Filing Service for initial registration.

Source: <https://oag.ca.gov/charities/renewals>

Arkansas Creates Strengthen Arkansas Homes Program to Aid Nonprofits Against Wind Damage

Arkansas Act 427 took effect January 1, 2026, creating the Strengthen Arkansas Homes Program within the State Insurance Department to provide financial grants to property owners and nonprofit organizations for mitigating losses from catastrophic wind events. The program assists nonprofits owning insurable dwellings in implementing wind-resistant improvements and recovery efforts following severe weather. Organizations can apply for grants through the Insurance Department for fortification projects meeting FORTIFIED Roof or FORTIFIED Silver

standards. This represents new funding opportunities for nonprofits with facility ownership addressing Arkansas's increasing exposure to catastrophic wind events and strengthening organizational resilience.

Source: <https://www.arkansashouse.org/news/post/33121/2025-legislation-with-january-1-2026-effective-date>

Virginia Minimum Wage Increases to \$12.77 Per Hour Affecting Nonprofit Employers

Virginia minimum wage increased from \$12.41 to \$12.77 per hour effective January 1, 2026, reflecting a 2.9% Consumer Price Index adjustment affecting all nonprofit employers statewide. The Virginia Department of Labor and Industry mandates the increase under Virginia Code § 40.1-28.10(F), requiring nonprofits to update payroll systems, adjust entry-level wages, and potentially recalibrate entire pay scales to maintain internal equity. While the average hourly wage in Virginia exceeds \$32, the increase particularly impacts nonprofits with narrow wage margins operating on tight budgets. Organizations must ensure compliance in the first 2026 pay period and prepare for future annual CPI-based adjustments.

Source: <https://doli.virginia.gov/2025/07/29/virginia-minimum-wage-rate-increasing-effective-january-1-2026/>

California Oversight Board Issues 12 Urgent Nonprofit Contracting Reform Recommendations

Little Hoover Commission issued December 2025 report with 12 policy recommendations reforming California's grantmaking and contracting processes to strengthen government-nonprofit partnerships following survey of 400 nonprofits revealing widespread systemic barriers. Key recommendations include mandating minimum 25% advance payments for all nonprofit contracts, amending Prompt Payment Act by 2026, requiring minimum 15% indirect cost reimbursement, maximizing grant duration with simplified renewals, standardizing emergency amendments, harmonizing reporting requirements across 236 state agencies, establishing nonprofit liaison office in Governor's Office, and creating uniform statewide grant portal. Commission found current processes impede effective service delivery by burdening nonprofits with cash flow crises and administrative inefficiencies.

Source: <https://calnonprofits.org/state-oversight-board-issues-recommendations-to-improve-nonprofit-contracting-practices-in-california/>

Washington State Mandates Email Addresses for Nonprofit Corporation Filings

Washington Secretary of State announced January 12, 2026, that beginning January 20, 2026, nonprofit corporation filings lacking required email addresses for registered agents and principal offices will be rejected under WAC 434-112-045(4). The mandate applies to articles of incorporation, annual reports, reinstatements, and amendments affecting all nonprofits filing with the state. Organizations must provide email addresses for both registered agent and principal office sections to avoid filing rejections. Nonprofits should immediately update corporate records, notify registered agents, and establish reliable email monitoring systems.

Source: <https://www.sos.wa.gov/corporations-charities/frequently-asked-questions-faqs/contact-info-requirements-updates>

Summary

The January 26, 2026 Navigator News Update reflects a nonprofit operating environment undergoing rapid and fundamental change across every major dimension of governance, funding, compliance, and workforce management. The potential for a second federal government shutdown, aggressive expansion of False Claims Act enforcement, abrupt grant terminations and reversals, and heightened criminal and civil scrutiny now combine to create unprecedented funding volatility and compliance risk for organizations receiving federal support.

At the same time, sweeping tax law changes reshape charitable giving incentives, donor-advised fund strategies, Qualified Charitable Distribution planning, filing requirements, and audit obligations. Human resources developments introduce new classification flexibility, expanded accommodation obligations, shifting harassment enforcement standards, and intensified benefit plan oversight. State-level actions add further complexity through privacy laws, donor protections, wage mandates, filing system changes, and nonprofit contracting reforms.

Taken together, these developments require nonprofit leaders to strengthen governance oversight, modernize compliance systems, expand donor and board education, and adopt proactive risk management and contingency planning strategies. Organizations that respond early—by diversifying funding, reinforcing internal controls, modernizing technology, and closely monitoring regulatory change—will be best positioned to sustain mission delivery and organizational resilience in an increasingly unpredictable regulatory and operating environment.

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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