

Abstract

Federal policy developments are fundamentally reshaping the operating environment for nonprofit organizations. From a new fraud enforcement task force explicitly targeting federally funded nonprofits, to sweeping Medicaid cuts and intensified grant compliance demands, the regulatory landscape has grown more complex and consequential than at any point in recent memory. Independent contractor classification rules face revision, proposed SAM.gov certifications now criminal liability risk, and the Johnson Amendment's future hangs in the balance. Organizations must act now—auditing internal policies, diversifying revenue, and engaging legal counsel—to protect mission continuity in an era of unprecedented federal scrutiny.

Weekly NMN Executive Briefing

For the week of March 30, 2026

2025-26 Federal Policy Developments Affecting Nonprofits

From Nonprofit Management Navigator

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The following NMN Executive Briefing is the fourth installment in a new weekly feature from Nonprofit Management Navigator. Each week, we publish a focused analysis devoted exclusively to a high-priority operating development likely to shape nonprofit performance in 2026 and beyond. The NMN Executive Briefing is provided in addition to your regular Nonprofit Management Navigator News Update. You can subscribe to this free weekly service at NonprofitManagementNavigator.com.

The March 30 NMN Executive Briefing examines the significant and far-reaching federal policy changes organizations are now experiencing in 2025–2026. This analysis is designed to give nonprofit senior executives and board members the insight they need to make stronger management decisions during this period of rapid change and ongoing uncertainty—decisions that support long-term mission success and organizational resilience.

The Landscape: Why Federal Policy Developments Matter More Now

Nonprofit organizations have long operated within a framework of federal regulations governing their tax-exempt status, funding relationships, and workforce practices. The convergence of executive orders, legislative changes, and enforcement actions in 2025–2026 marks a qualitative shift in the intensity and scope of federal oversight. "Federal policy developments affecting nonprofits" encompasses the full range of legislative, regulatory, and executive actions emanating from Congress, federal agencies, and the White House that directly alter how nonprofits are funded, audited, staffed, and held accountable. Today, these developments carry consequences that include immediate funding loss, civil and criminal liability, and threats to the legally protected nonpartisan character of the sector itself.

Analysis of Current Federal Policy Developments

The most immediate threat facing federally funded nonprofits is a sharply escalating enforcement environment. On March 16, 2026, President Trump signed an executive order establishing a Task Force to Eliminate Fraud, chaired by Vice President Vance, with express authority to investigate nonprofits and intermediaries receiving federal funds.^[1] This action built directly on the January 2026 launch of the DOJ's Division for National Fraud Enforcement and signals that fraud scrutiny is no longer an incidental risk—it is a central pillar of the current administration's federal grant oversight strategy. With FY 2025 False Claims Act recoveries reaching a record \$6.8 billion and 1,297 whistleblower suits filed, the enforcement machinery is demonstrably active.^[1] Compounding this exposure, the DOJ outlined at a February 2026 federal conference how it will deploy the False Claims Act specifically against grant recipients whose DEI-related employment or program practices constitute unlawful discrimination by race or sex, asserting that anti-discrimination compliance is material to all federal payment decisions and creating additional pathways to civil liability and qui tam whistleblower suits.^[10]

Even organizations that navigate the fraud and DEI enforcement landscape successfully face a fundamentally altered relationship with federal grant funding. An August 7, 2025 executive order directed all federal agencies to incorporate termination-for-convenience clauses into discretionary grant agreements, permitting immediate award termination when grants no longer align with administration priorities—regardless of a recipient's compliance record—and requiring agencies to retroactively revise existing award terms.^[8] That structural change arrived alongside dramatically heightened compliance demands: a separate August 2025 executive order and updated Uniform Guidance now require senior political appointees to review all discretionary grants and mandate written justification for each fund drawdown, elevating compliance from a periodic audit concern into a continuous daily discipline.^[3] Layered on top of both developments, SAM.gov certifications proposed by the General Services Administration on January 28, 2026 require nonprofits—under penalty of civil and criminal law—to attest compliance with vague standards tied to executive orders on DEI, immigration, and terrorism, without providing any clear compliance roadmap.^[6] Together, these three interlocking developments mean that a nonprofit organization can simultaneously face termination of a fully compliant award, daily scrutiny of its financial documentation, and potential criminal liability for a certification it cannot definitively verify.

While enforcement and compliance pressures intensify, nonprofit service organizations face equally serious threats to their revenue base. The One Big Beautiful Bill Act (OBBBA), signed July 4, 2025, enacted nearly \$911 billion in Medicaid spending reductions over ten years, with provider tax financing restrictions and work requirements beginning in 2026 that are projected to cause nonprofit community health centers to lose revenue approaching \$32 billion over five years as an estimated 5.6 million Medicaid patients in expansion states lose coverage.^[2] These federal funding contractions do not remain confined to the federal level. As states draft FY 2027 budgets in response to the OBBBA's mandatory spending reductions, new state cost-sharing requirements for SNAP take effect in October 2026 and Medicaid work requirements begin as early as January 2027. Forecasts from 31 states project median FY 2027 tax revenue growth of only 2.3%, well below recent norms, compelling reductions to state-funded programs that rely heavily on nonprofit service delivery.^[11] The result is a compounding fiscal challenge: demand for nonprofit services will rise as public program eligibility tightens, while the public funding that has supported those services contracts at both the federal and state levels simultaneously.

The federal policy environment is also reshaping how nonprofits must structure and document their workforces. On February 27, 2026, the Department of Labor published a proposed rule that would rescind the Biden-era six-factor independent contractor classification test and restore a simpler two-factor emphasis, while for the first time extending independent contractor analysis to the Family and Medical Leave Act and related statutes.^[4] Organizations that rely on consultants, program staff, or gig workers face both regulatory uncertainty and a narrow compliance window, as public comments are due April 28, 2026.^[4] Simultaneously, the sector's tax-exempt legal framework is under challenge from two directions: S.3554—the No Tax Dollars for Terrorists Act, introduced by Senators Cornyn and Sheehy—would authorize the Treasury Department to revoke the tax-exempt status of any nonprofit it designates as providing material support to terrorist organizations, with critics arguing that vague drafting could weaponize the bill against organizations that oppose administration policy priorities rather than actual terrorism.^[9] At the same time, a U.S. District Court in Texas is expected before spring 2026 to enter a consent decree effectively exempting churches from enforcement of the Johnson Amendment—the 70-year prohibition on 501(c)(3) organizations endorsing political candidates—following the IRS's reversal of its prior enforcement position.^[7]

Against this backdrop of enforcement escalation and structural legal uncertainty, the intensifying 2026 midterm election cycle adds another layer of risk. 501(c)(3) organizations face heightened IRS scrutiny if any activity is perceived as partisan, even unintentionally. The absolute prohibition on campaign intervention extends to voter guides that imply candidate preference, speaking events that benefit particular candidates, and social media content that links to partisan material—categories that are increasingly difficult to police as the political environment grows more polarized.^[6] If the Johnson Amendment is effectively dismantled through the Texas proceeding, the legally protected nonpartisan status that has historically insulated 501(c)(3) organizations from political pressure could be fundamentally altered, with implications that extend well beyond the churches that are the immediate subject of the litigation.^[7]

Implications for Nonprofit Organizations

Near-Term Implications (2026). The immediate operating environment demands concurrent attention across legal, financial, and governance domains. Proposed SAM.gov certification requirements demand legal review before any registration renewal or new award acceptance, and the April 28, 2026 DOL comment deadline creates a narrow window for organizations to audit and document all contractor relationships. Grant compliance now requires daily financial monitoring and written documentation rather than periodic pre-audit preparation, while the False Claims Act DEI enforcement posture means that internal program and hiring practices must be reviewed against federal anti-discrimination standards before the next grant certification is signed. Election-year rules require board and staff training now, not in the fall.

Longer-Term Implications (2027 and Beyond). The OBBBA's cascading effects on Medicaid, SNAP, and state budgets will generate a sustained and growing wave of service demand precisely as public funding contracts. The normalization of termination-for-convenience clauses fundamentally changes the nature of the federal-nonprofit funding relationship, requiring organizations to treat federal awards as contingent rather than reliable program foundations and to build financial reserves accordingly. If the Johnson Amendment is effectively dismantled, the sector's legally protected nonpartisan status—a cornerstone of public trust and philanthropic support—could be irreversibly altered, with consequences that go far beyond IRS compliance.

Action Steps for Nonprofit Leaders

1. Engage specialized legal counsel immediately to review proposed SAM.gov certification requirements before renewing registrations or accepting new federal awards.
2. Conduct a comprehensive audit of all DEI-related programs, hiring practices, and grant certifications to assess False Claims Act exposure and ensure all written policies align with federal anti-discrimination requirements.
3. Model multi-year financial scenarios accounting for Medicaid revenue losses and state budget reductions, and develop contingency service-delivery plans.
4. Audit all independent contractor arrangements and prepare documented evidence of worker independence before the April 28, 2026 DOL comment deadline.
5. Provide board and senior staff training on election-year political activity rules and consider filing IRS Form 5768 to operate under expenditure-based lobbying standards.
6. Build operating reserves and actively diversify revenue streams to reduce dependence on any single federal funding source.
7. Monitor the Texas court proceeding on the Johnson Amendment closely and engage national sector advocacy organizations tracking the litigation.

8. Modernize financial management systems, invest in staff training on Uniform Guidance requirements, and implement continuous grant monitoring protocols to avoid funding disruptions, delayed reimbursements, or outright award termination.

Summary

The 2026 operating environment for nonprofit organizations is defined by an unprecedented convergence of federal enforcement actions, funding reductions, and regulatory complexity that are not independent developments but mutually reinforcing pressures. A fraud enforcement task force, an activist False Claims Act posture targeting DEI practices, termination-for-convenience clauses, and new criminal-penalty-backed grant certifications collectively redefine the risk calculus for any organization accepting federal funding. At the same time, Medicaid and SNAP reductions will generate rising service demand while simultaneously shrinking the funding available to meet it. The organizations best positioned to protect their missions will be those that treat compliance not as an administrative burden but as a strategic imperative—investing in legal counsel, financial resilience, workforce documentation, and governance training rather than waiting for final rules or court decisions.

Sources

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8. [Greenberg Traurig — Trump Administration Executive Order Requires Enhanced Oversight, Termination for Convenience Clauses in Federal Grants \(August 2025\)](#)
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10. [Holland & Knight — DOJ Outlines FCA Enforcement for Contractor Violations of Anti-Discrimination Laws \(February 2026\)](#)
11. [Tax Policy Center — Slowdown Season: States Enter Fiscal Year 2027 Budget Battles \(March 2026\)](#)

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