Abstract

This week's Navigator Update tracks a wave of federal, IRS, employment, and state developments reshaping nonprofit compliance and funding. The Office of Management and Budget's proposed rewrite of the Uniform Guidance (2 CFR Part 200) would give federal agencies sweeping new termination and suspension powers over grants, with public comments due July 13. Florida's new "domestic terrorist organization" law is already being used against a national civil rights group, raising due-process concerns for advocacy nonprofits nationwide. Nonprofit employers face converging deadlines on federal contractor DEI clauses, Form I-9 enforcement, and Temporary Protected Status reverification. IRS guidance clarifies expanded executive compensation excise tax exposure, while courts continue restoring canceled USDA grants and blocking a rule that threatened Public Service Loan Forgiveness. Florida and Indiana are advancing controversial "terrorist organization" designation laws targeting nonprofits, while other states advance donor-privacy, pay-transparency, and fundraising-platform reforms. Nonprofit leaders should prioritize funding contingency planning and compliance review now.

July 13, 2026 Navigator Update: Including OMB's Federal Grant Rule Overhaul, Florida's Nonprofit “Terrorist Organization” Law, and More!

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Introduction

Welcome to the July 13, 2026 edition of Navigator Update. This week's update arrives amid accelerating regulatory activity across every level of government, from a sweeping federal rewrite of grant-making rules to state laws targeting advocacy organizations under new "terrorism" designations. Nonprofit leaders are contending with compounding pressure: federal grant terminations and denials are occurring simultaneously, employment law enforcement priorities are shifting away from disparate-impact theories toward individual complaints, and IRS scrutiny of tax-exempt organizations is intensifying through expanded whistleblower tools and a planned Form 990 overhaul. At the same time, courts have delivered meaningful wins for the sector, reinstating canceled USDA grants and vacating a rule that threatened Public Service Loan Forgiveness eligibility for nonprofit employees. This issue is organized into four sections: Nonprofit News and Federal Regulatory Developments, Nonprofit Human Resources Developments, IRS, Finance and Operations Developments, and State Nonprofit News. Each section opens with an Executive Summary and Key Actions to help your organization triage this week's developments by urgency, using the Priority Legend below. As always, we encourage leaders to consult qualified legal, accounting, and operational advisors before acting on any specific item.

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 grantmaking faces its most significant overhaul in over a decade as OMB's proposed rewrite of 2 CFR Part 200 would expand agency termination authority, add new suspension powers, and impose E-Verify and DEI-related restrictions, with comments due July 13. Courts continue pushing back on abrupt terminations, ordering USDA to reinstate rural grants and vacating a PSLF employer rule. Meanwhile, congressional investigations of politically targeted nonprofits remain elevated, and the National Council of Nonprofits has issued new principles for ethical online fundraising platforms.

⚡ **Key Actions for This Section:**

- Submit comments on the proposed 2 CFR Part 200 rewrite before the July 13 deadline
- Model scenarios for both federal grant termination and application-denial risk
- Build or expand cash reserves and diversify revenue streams
- Review compliance with IRS group exemption standards ahead of the January 2027 deadline
- Monitor congressional investigations and engage counsel early if contacted

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🔴 OMB Proposes Sweeping Rewrite of Federal Grant Rules Under 2 CFR Part 200

The Office of Management and Budget's proposed rewrite of the Uniform Guidance (2 CFR Part 200) would reshape how every federal grant is awarded, administered, and ended. Key provisions: eliminating fixed-amount awards (new prohibition); broadening agency authority to terminate awards for convenience (revises existing termination rules); adding a 90-day temporary suspension power (new); requiring E-Verify for all recipients, not just contractors (new); barring funds for DEI and disparate-impact activities (new); restricting foreign collaborations (new); and requiring prior agency approval for fundraising and investment costs (revises existing cost-principle rules). OMB proposes an October 1, 2026 effective date. The comment period closes July 13.

Source: Federal Register, "Regulation for Federal Financial Assistance," May 29, 2026

🟡 Nonprofits Face a Double-Edged Federal Funding Risk

Nonprofits chasing federal dollars now face two risks simultaneously: awarded grants being terminated mid-project under expanded agency termination-for-convenience authority, and new applications being denied under broader, more subjective risk and priority-alignment reviews. Advisors warn that neither a signed award nor a strong application now guarantees funding will materialize or continue. The prudent response is scenario planning: model funding-loss and funding-denial outcomes together, build cash reserves, diversify revenue, and avoid over-committing staff or facilities to any single federal funding stream.

Source: Carinci Consulting, "When the Rules Keep Moving: How Nonprofits Should Approach Federal Grants Right Now," May 1, 2026

🟡 Building Nonprofit Financial Resilience for an Uncertain 2026

Rising regulatory uncertainty, slower reimbursements, and growing service demand are testing nonprofit finances in 2026. Advisors recommend a three-part approach: visibility through rolling cash forecasts and dashboards, velocity in board-level decisions when funding shifts, and versatility through diversified revenue and flexible programming. Organizations are also boosting reserves, with nearly half now holding four to six months of operating expenses. The takeaway for nonprofits: resilience now depends on proactive financial systems and communication, not on assuming government funding will stay stable.

Source: NonProfit PRO, "How Nonprofits Can Build Real-Time Financial Resilience in 2026," May 14, 2026

🟢 **Treasury Unveils Form 990 Overhaul to Track Government Grants and Fiscal Sponsorships**

Treasury announced plans for the IRS to overhaul Form 990 reporting on government grants, contracts, and fiscal-sponsorship arrangements, tracing who controls funds and how they are used. Officials say the changes target misuse of public money and opaque fiscal-sponsorship structures. No draft form has been released; proposed regulations and a comment period will follow. For nonprofits with government funding or sponsored projects, the relevance is immediate: expect more granular disclosure, and start documenting fund flows, control, and use now.

Source: U.S. Department of the Treasury press release, April 23, 2026

🟡 **IRS Group Exemption Transition Deadline Approaches Under Revenue Procedure 2026-8**

The IRS's Revenue Procedure 2026-8, its first comprehensive group-exemption overhaul in 45 years, reopened new group applications and set stricter, ongoing standards for central organizations to prove affiliation and control over subordinates. Existing group exemption holders have until January 22, 2027 to comply. National or regional nonprofits with chapters, affiliates, or local units should inventory their subordinate structures, confirm supervision practices, and update governance documentation now, since noncompliant subordinates risk being dropped from group coverage once the transition ends.

Source: Internal Revenue Service, "Group exemption rulings and group returns"

🟢 **Ways and Means Advances Package Targeting Nonprofit Hospital Transparency**

The House Ways and Means Committee voted 25-15 along party lines to advance the Tax-Exempt Hospital Transparency Act, requiring nonprofit hospitals with more than 100 beds or $100 million in net patient revenue to report expanded, facility-level data on charity care, community benefit spending, and 340B drug-discount participation. It would not change 501(c)(3) or 501(r) exemption standards, but hospitals should prepare now for heavier data-collection, cost-allocation, and disclosure burdens, particularly distinguishing clinical from nonclinical spending, if the bill advances further.

Source: U.S. House Committee on Ways and Means, press release, July 1, 2026

🟡 **Federal Court Strikes Down PSLF Rule Targeting "Illegal Purpose" Nonprofits**

A federal judge vacated the Education Department's rule letting officials strip Public Service Loan Forgiveness eligibility from employers found to have a "substantial illegal purpose," ruling it unlawful, arbitrary, and unconstitutionally vague one day before it was to take effect. Nonprofit and government employers keep PSLF eligibility for now and can pause compliance reviews built around the rule. The ruling may be appealed, so nonprofits should keep tracking it and stay ready to resume documentation if reversed.

Source: The College Investor, "Federal Judge Strikes Down Education Dept.'s New PSLF Employer Rule, One Day Before It Took Effect," June 30, 2026

🟡 **Federal Judge Orders USDA to Reinstate Terminated Rural Nonprofit Grants**

A federal judge ordered USDA to reinstate 24 of 49 terminated grants under its Increasing Land, Capital and Market Access program, restoring roughly $127 million to farm and food nonprofits, including Kansas City-based Cultivate Kansas City. The court found the terminations were likely unlawful and caused irreparable harm. For nonprofits with federal grants, the ruling shows courts will act against abrupt mid-award terminations, but relief remains partial and case-specific, underscoring why contingency planning, not litigation alone, should anchor funding strategy.

Source: Kansas Public Radio, Daily Headlines, July 6, 2026

🟢 **National Council of Nonprofits Issues Principles for Online Fundraising Platforms**

The National Council of Nonprofits and more than 50 state and regional associations published four principles for ethical online fundraising platforms: nonprofit consent, transparency, partnership, and accountability. The move follows complaints that some platforms solicit or list nonprofits, use their logos, or collect donations without permission, often charging hidden fees or inflated default tips. Nonprofits should check whether platforms already list them, confirm the accuracy of that information, and consider endorsing the principles to push platforms toward consent-based practices.

Source: [The NonProfit Times, "National Council of Nonprofits Outlines Rules For Fundraising Platforms," June 29, 2026]

🟡 **Congressional Scrutiny of Politically Targeted Nonprofits Continues**

Congressional investigations targeting nonprofits remain elevated, with at least 32 opened this session, touching universities, environmental groups, and organizations linked to Palestinian-rights advocacy, per a tracker from the International Center for Not-for-Profit Law. Combined with a presidential memorandum authorizing broader IRS and DOJ scrutiny of groups tied to alleged political violence, nonprofits face rising legal and reputational exposure regardless of wrongdoing. Organizations should review compliance now, engage counsel early if contacted, and coordinate with funders early.

Source: [International Center for Not-for-Profit Law, "Congressional Investigations" tracker]

🟡 **Federal Judge Rules EPA Illegally Terminated $2.8 Billion Environmental Justice Grant Program**

A federal judge in South Carolina ruled that EPA's termination of the Inflation Reduction Act–funded Environmental and Climate Justice Block Grant Program was "arbitrary and capricious and unlawful," voiding the agency's cancellation guidance. The judge stopped short of ordering EPA to resume the program, citing the agency's since-dismissed staff, and denied a request to extend the program's September 2026 award deadline. Affected nonprofits may still pursue compensation through the Court of Federal Claims.

Source: Inside Climate News, "Trump's EPA Unlawfully Cancelled Environmental Justice Grants, Judge Rules," June 12, 2026 — https://insideclimatenews.org/news/12062026/judge-rules-trump-environmental-justice-grant-cancellations-unlawful/

🟢 **FEMA Opens $300 Million Nonprofit Security Grant Program for FY2026**

FEMA published the Fiscal Year 2026 Notice of Funding Opportunity for the Nonprofit Security Grant Program, making $300 million available to houses of worship, community centers, and other nonprofits at high risk of terrorist or extremist attack. Funding splits evenly between urban-area and state-level tracks. Applications close July 24, 2026. Given rising security concerns facing advocacy and faith-based nonprofits, eligible organizations should coordinate with their State Administrative Agency promptly to meet the deadline.

Source: Grants.gov, "Fiscal Year 2026 Nonprofit Security Grant Program" (Opportunity Number DHS-26-GPD-008-00-99), posted June 24, 2026 — https://simpler.grants.gov/opportunity/f093f16b-616d-4509-8da8-84887d36771a

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Nonprofit Human Resources Developments

📋 **Executive Summary:** Nonprofit employers face a cluster of near-term compliance deadlines: federal contractors must address new anti-DEI contract clauses by July 24, Form I-9 errors are now treated as substantive violations without a cure period, and employers of Temporary Protected Status workers must prepare for reverification following the Supreme Court's Mullin v. Doe ruling. The EEOC continues shifting enforcement toward "overt" discrimination and away from disparate-impact theories, while a federal court vacated a rule that threatened nonprofit employers' PSLF eligibility.

⚡ **Key Actions for This Section:**

- Review and, where required, bilaterally modify federal contracts to address the new anti-DEI clause before July 24
- Audit existing Form I-9 records for technical errors before an inspection occurs
- Identify employees affected by TPS terminations and prepare reverification procedures
- Reassure staff that PSLF eligibility remains unchanged for now and continue certifying employment
- Review EEOC enforcement priorities and consider commenting on the draft Strategic Plan by July 19

🔴 **Federal Contractor DEI Ban: July 24 Deadline Approaches for Bilateral Contract Modifications**

The FAR Council's April 17 guidance implementing Executive Order 14398 requires agencies to insert a new anti-DEI clause into federal contracts and "make every effort" to bilaterally modify existing contracts by July 24. Contractors who refuse risk termination for convenience, suspension, or debarment, with False Claims Act exposure attached. Twenty states have sued over the rollout, but the deadline stands for now. Nonprofit federal contractors should review workforce and recruiting programs and consult counsel before the deadline arrives.

Source: Ward & Berry, June 2026 — https://www.wardberry.com/dont-get-burned-this-summer-federal-contractors-have-until-july-24-to-comply-with-the-new-addressing-dei-discrimination-far-clause-but-state-contracts-make-for-a-complicate/

🔴 **ICE Reclassifies Common Form I-9 Errors as Substantive Violations, Eliminating Cure Period**

ICE quietly overhauled its Form I-9 enforcement fact sheet in March, reclassifying more than ten common paperwork errors, such as missing dates or incomplete document fields, from correctable "technical" violations into "substantive" ones. Employers no longer get the traditional 10-day cure window, and retained document copies no longer excuse omissions. Fines run $288 to $2,861 per form. Nonprofit employers should audit existing I-9s promptly, since routine paperwork mistakes can now trigger immediate, uncorrectable penalties during an inspection.

Source: Alston & Bird, April 2026 — https://www.alston.com/en/insights/publications/2026/04/ice-changes-form-i-9-enforcement

🔴 **Supreme Court Rules 6-3 in Mullin v. Doe: Nonprofit Employers of TPS Workers Must Act on I-9 Reverification**

The Supreme Court's June 25 ruling in Mullin v. Doe cleared the way for the government to end Temporary Protected Status for roughly 350,000 Haitians and 6,000 Syrians, holding that courts generally cannot review TPS termination decisions. USCIS has set July 10 as the revised employment-authorization expiration date. Nonprofits employing TPS holders must audit I-9 records, identify affected workers, and prepare to reverify work authorization promptly, while confirming employees lack independent status before taking any adverse action.

Source: Morgan Lewis, June-July 2026 — https://www.morganlewis.com/pubs/2026/06/after-mullin-a-practical-guide-for-employers-with-tps-workers

🟡 **EEOC Releases Draft FY2026-2030 Strategic Plan for Public Comment**

The EEOC voted July 1 to release a draft Strategic Plan for fiscal years 2026-2030, opening a public comment period through July 19. The plan narrows systemic-enforcement measures, drops the agency's own diversity-related workforce commitments, and adds new language on generative AI in hiring without corresponding enforcement priorities. It complements the agency's separate National Enforcement Plan. Nonprofit employers should review the draft's shifting priorities and consider commenting, since it will shape EEOC investigation and outreach priorities through 2030.

Source: SHRM, July 2026 — https://www.shrm.org/topics-tools/employment-law-compliance/eeoc-releases-updated-draft-strategic-plan-public-comment

🟡 **DOL Rescinds Portions of Title VI Regulations**

Effective July 2, the Department of Labor rescinded portions of its Title VI regulations that had prohibited federally funded recipients from using criteria or practices with an unintentional discriminatory effect, limiting liability going forward to intentional discrimination only. The rule also drops a requirement that recipients remedy past discrimination through affirmative action. Nonprofits receiving DOL funding face reduced disparate-impact exposure but should still document nondiscriminatory justifications for policies, since state law and other funding agencies may still apply broader standards.

Source: HR Dive, July 2026 — https://www.hrdive.com/news/disparate-impact-liability-rollback-advances-federal-funding/824473/

🟢 **DOJ Opinion Challenges EEOC Disparate-Impact Guidelines Under Title VII**

On June 9, the Justice Department's Office of Legal Counsel opined that the EEOC's longstanding Title VII disparate-impact guidelines are unconstitutional, arguing they impose liability based on statistical outcomes alone and pressure employers toward race-conscious decisions. The opinion would ease employers' business-necessity burden while requiring plaintiffs to prove causation and propose alternatives. It doesn't change existing law or bind courts, but signals where enforcement is headed. Nonprofits should keep documenting job-related, consistently applied selection criteria despite the shift.

Source: Crowell & Moring LLP, June 2026 — https://www.crowell.com/en/insights/client-alerts/doj-guidance-backs-away-from-disparate-impact-liability

🟡 **EEOC's New National Enforcement Plan Shifts Focus to 'Overt' Discrimination**

On June 4, the EEOC replaced its Biden-era Strategic Enforcement Plan with a National Enforcement Plan covering fiscal years 2025-2029, released without the customary public comment process. The plan names "cases involving repeated or overt discrimination" as its top priority, continuing the agency's pivot away from disparate-impact theories toward intentional-discrimination claims. Nonprofit employers should expect EEOC investigations to focus more on individual complaints of deliberate bias and less on statistical workforce disparities, and should adjust compliance monitoring accordingly.

Source: Berkshire Associates, June 2026 —
https://www.berkshireassociates.com/blog/eeoc-issues-new-national-enforcement-plan-a-roadmap-for-employers

🟡 **EEOC Focuses Public Resources on DEI-Related Discrimination and National-Origin Bias**

The EEOC continues aggressively pursuing "illegal DEI" and national-origin discrimination claims, including recent settlements and lawsuits against employers over race- and sex-based programs, and a $21 million settlement with Columbia University over antisemitism allegations. Chair Andrea Lucas has urged white male employees to file bias complaints and warned that diversity programs remain unlawful regardless of their name. Nonprofits should audit employee resource groups, recruitment targeting, and training content for potential race- or sex-conscious elements that could draw a Commissioner's charge.

Source: U.S. Equal Employment Opportunity Commission newsroom, June 2026 —
https://www.eeoc.gov/wysk/columbia-university-begins-payout-21-million-eeoc-settlement-what-you-should-know

🟡 **PSLF Disqualification Rule for Nonprofit Employers Struck Down**

A federal judge in Massachusetts vacated the Education Department's rule letting officials strip nonprofit and government employers of Public Service Loan Forgiveness eligibility over an undefined "substantial illegal purpose," ruling it unlawful, arbitrary, and unconstitutional. The June 30 decision, one day before the rule's effective date, preserves PSLF access for employees of affected nonprofits nationwide. The Education Department may appeal. Nonprofit employers should reassure staff that PSLF eligibility is unchanged for now and continue certifying employment as usual.

Source: National Council of Nonprofits, July 2026 —
https://www.councilofnonprofits.org/

🟢 **DOL Wage and Hour Division Issues New 2026 FLSA Opinion Letters**

On May 28, the Department of Labor's Wage and Hour Division issued four more opinion letters interpreting the FLSA, addressing dual-role exempt employees, percentage-of-earnings bonus plans, and unpaid meal breaks near secured campuses. One letter confirmed that quarterly bonuses calculated as a fixed percentage of total earnings already satisfy overtime requirements without recalculation. Nonprofit employers using bonus pools or blended exempt/nonexempt roles should compare their pay practices against these letters, which employers may cite as good-faith compliance evidence.

Source: Hinckley Allen, June 2026 — https://www.hinckleyallen.com/publications/practical-guidance-from-the-latest-wage-and-hour-dol-opinion-letters/

🟡 **EEOC Continues Wave of Religious-Accommodation Enforcement Actions**

The EEOC continues an active docket of religious-accommodation lawsuits and settlements, including a May resolution requiring an aviation logistics company to pay $55,000 over a Sabbath-observance scheduling dispute, alongside other recent suits over prayer breaks, religious dress, and holiday observance. The agency has signaled heightened scrutiny of "undue hardship" denials following Groff v. DeJoy. Nonprofit employers should review accommodation procedures and train managers to document individualized undue-hardship analysis rather than relying on blanket scheduling policies.

Source: Law360 Employment Authority, April 2026 — https://www.law360.com/employment-authority/articles/2471664/eeoc-scores-deal-in-suit-over-christian-worker-s-schedule

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IRS, Finance and Operations Developments

📋 **Executive Summary:** IRS guidance under Notice 2026-36 expands which employees can trigger the Section 4960 executive compensation excise tax while preserving key volunteer exceptions. DOJ and IRS scrutiny of tax-exempt organizations continues to intensify through expanded whistleblower tools and a planned Form 990 overhaul. Meanwhile, updated AICPA and FASB guidance affects nonprofit audits and financial statements, and advisors continue urging nonprofits to build rolling cash forecasts amid funding uncertainty.

⚡ **Key Actions for This Section:**

- Reassess executive compensation arrangements for expanded Section 4960 excise tax exposure

- Tighten recordkeeping and adopt a written response plan for potential IRS or DOJ inquiries
- Confirm financial statements reflect updated AICPA and FASB guidance before year-end reporting
- Build 13-week rolling cash forecasts and revisit reserve policies

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🟡 IRS Clarifies Expanded Executive Compensation Excise Tax Reach

Notice 2026-36 explains how the IRS will interpret the One Big Beautiful Bill Act's expansion of Section 4960, which removes the prior "five highest-compensated" limit so that, for 2026 and later years, any current or former employee can become a "covered employee" subject to the 21% excise tax on pay over $1 million. For 2017-2025, only employees who qualified under the old rules count. Nonprofits with related entities or deferred compensation arrangements should reassess exposure now.

Source:
https://www.arnoldporter.com/en/perspectives/advisories/2026/06/irs-announces-interpretation-of-the-expanded-group-of-nonprofit-employees-subject-to

🟢 IRS Preserves Volunteer Exceptions Under Expanded Compensation Excise Tax

Alongside its broadened "covered employee" definition, Notice 2026-36 confirms that forthcoming Section 4960 regulations will keep the existing "limited hours" and "nonexempt funds" exceptions, so board members and lightly compensated volunteers tied to related for-profit or affiliated entities won't automatically trigger the 21% excise tax. The narrower "limited services" exception will not survive. Nonprofits should document which volunteers and shared-staff arrangements qualify for relief and update compensation policies before final rules take effect.

Source:
https://www.bdo.com/insights/tax/irs-issues-relief-for-exempt-organization-executive-compensation-excise-tax

🟡 DOJ and IRS Sharpen Focus on Nonprofit Fraud Investigations

A new nonprofit-focused primer outlines rising IRS and DOJ scrutiny of tax-exempt organizations, driven by an expanded whistleblower tip tool, a planned Form 990 overhaul targeting hidden fraud and extremist activity, and directives linking IRS enforcement to domestic-terrorism financing concerns. The guidance urges nonprofits to adopt written response plans, retain counsel experienced in tax-exempt investigations, tighten recordkeeping, and screen grantees and vendors, since early missteps during an inquiry can escalate a routine audit into a criminal referral.

Source: https://protectdemocracy.org/work/nonprofit-primer-irs-investigation/

🟢 **Cybersecurity: Nonprofit Boards Cannot Afford to Look Away**

Cyberattacks against nonprofits continue rising as organizations hold sensitive donor, client, and financial data while operating with constrained technology budgets. Governance experts stress that cybersecurity oversight is now a core fiduciary duty, not merely an IT matter: boards should review cyber risk at least annually, ensure leadership provides plain-language updates, and understand which programs a system outage could halt. A single breach can disrupt services, expose donor data, and trigger regulatory scrutiny, making this an evergreen governance priority.

Source:
https://kahnlitwin.com/blogs/mission-matters-blog/strengthening-nonprofit-board-cybersecurity-oversight-part-1

🟢 **Midyear Financial Reviews Take on New Urgency for Nonprofits**

With demand for services rising while resources tighten, advisors are urging nonprofits to build 13-week rolling cash forecasts, revisit reserve policies, and run scenario plans for 10%, 25%, and 50% revenue reductions. Boards should decide in advance how shortfalls will be managed, choosing between lines of credit and reserve draws, and set clear reporting cadences. Organizations that complete this work before a funding disruption hits are far better positioned to respond quickly and preserve core programs.

Source:
https://www.nonprofitpro.com/post/how-nonprofits-can-build-real-time-financial-resilience-in-2026/

🟡 **Building Immediate Financial Resilience Amid Funding Uncertainty**

CPA advisors report that federal awards are being paused, delayed, or restructured just as reimbursement timelines stretch and demand for services grows, leaving many nonprofits with three months or less of cash on hand. Recommended immediate steps include building weekly cash forecasts, updating reserve targets to three to six months of expenses, diversifying revenue without overextending staff capacity, and strengthening board communication around trigger points for spending cuts, credit use, or reserve draws before a crisis forces the decision.

Source: https://www.brymar.cpa/post/insights-nonprofit-financial-resilience-2026

🟢 **IRS Electronic Tax Administration Advisory Committee Report Includes Filing Modernization Recommendations**

The IRS's Electronic Tax Administration Advisory Committee released 18 recommendations in its 2026 annual report, urging Congress to provide predictable multi-year IRS funding, grant authority to regulate non-credentialed preparers, and prioritize technology modernization amid workforce cuts and a 9% budget reduction. Recommendations to the IRS include expanded AI use for fraud detection and identity verification, broader e-filing, and simplified filings. Slower IRS service and modernization directly affect nonprofits' Form 990 processing and 501(c)(3) determination timelines.

Source:
https://www.irs.gov/newsroom/electronic-tax-administration-advisory-committee-2026-annual-report-includes-recommendations-to-congress-and-irs

🟢 **AICPA Releases Updated 2026 Not-for-Profit Audit and Accounting Guide**

AICPA & CIMA's newly updated Not-for-Profit Entities Audit and Accounting Guide incorporates SAS No. 145 and 146, new crypto-asset accounting rules under ASU 2023-08, and the simplified credit-loss measurement standard in ASU 2025-05, alongside guidance on contributions, split-interest agreements, and fund accounting. Nonprofit finance staff, auditors, and audit committees should use the update to confirm their financial statements and audit procedures reflect current standards before year-end reporting and single-audit season, reducing risk of restatement or audit findings.

Source:
https://www.aicpa-cima.com/cpe-learning/publication/not-for-profit-entities-audit-and-accounting-guide

🟢 **FASB Credit-Loss Standard Update Reaches Nonprofit Financial Statements**

ASU 2025-05 lets nonprofits assume, for current accounts receivable and contract assets arising from revenue transactions, that economic conditions at year-end will not change, eliminating the burden of forecasting future losses. Nonprofits may also elect to factor in collections received before financial statements are issued, potentially reducing recorded allowances. The standard, effective for periods beginning after December 15, 2025, does not apply to contributions receivable, so organizations should coordinate the new election carefully with auditors this cycle.

Source:
https://www.nonprofitaccountingbasics.org/asu-2025-05-what-not-profit-organizations-need-know-about-simplified-credit-loss-guidance

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State Nonprofit News Developments

📋 **Executive Summary:** State legislatures and officials are reshaping the nonprofit operating environment on multiple fronts. Florida and Indiana have enacted laws allowing state officials to designate nonprofits as terrorist organizations or affiliates with limited due process, and Florida has already targeted a national civil rights group. Other states are updating wage and pay-transparency requirements, donor privacy protections, nonprofit contracting and earmark-oversight rules, and fundraising platform rules. Federal Medicaid work requirements taking effect in December 2026 will also strain nonprofit health and human-service providers.

⚡ **Key Actions for This Section:**

- Assess exposure under Florida's and Indiana's new "terrorist organization" and "affiliate" designation laws, particularly for advocacy and international-partner organizations
- Update job postings and hiring practices for new pay-transparency requirements in Virginia and similar states
- Prepare clients for Medicaid work-requirement documentation ahead of the December 2026 deadline
- Confirm compliance with new state fundraising-platform consent requirements, including in Hawaii

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🔴 **Florida's New "Domestic Terrorist Organization" Law Now Being Used Against a National Civil Rights Group**

Florida's HB 1471 took effect July 1, letting the state's chief of domestic security recommend "domestic terrorist organization" designations, subject to Governor and Cabinet approval. Days later, DeSantis named the Council on American-Islamic Relations among his first targets; CAIR sued in federal court, calling the process a due-process-free "designation regime." For nonprofits, especially advocacy and civil-rights groups, the law threatens frozen assets, lost public funding, and criminal exposure for supporters, all before any court reviews the designation.

Source: CBS News Miami, "Gov. DeSantis designates multiple groups as terrorist organizations, including 2 prominent Florida Islamic groups" (July 2, 2026) — https://www.cbsnews.com/miami/news/desantis-terrorist-organization-designation-florida-islamic-groups-july-2026/

🟡 **Federal Medicaid Work Requirements Move Toward December 2026 Deadline, With Rules Still Unsettled**

CMS issued fresh implementation guidance in June narrowing how "medical frailty" exemptions work under the federal reconciliation law's new Medicaid work requirements, which states must implement by December 31, 2026. Outreach to affected enrollees must run through August. For nonprofits providing health, disability, or substance-use services, the tightened frailty definition and looming verification deadlines mean more clients may need help documenting exemptions or risk losing coverage, straining already-stretched safety-net providers.

Source: Center for Health Care Strategies, "A Summary of Federal Medicaid Work Requirements" — https://www.chcs.org/resource/a-summary-of-national-medicaid-work-requirements/

🔴 **Indiana Law Lets Attorney General Investigate Nonprofits as Foreign Terrorist "Affiliates"**

Indiana's SB 256, effective July 1, creates a new "affiliate of a foreign terrorist organization" designation that the attorney general can investigate using civil subpoena power, with the governor then deciding by a "more likely than not" standard. Because "affiliate" covers anyone acting "at the request" of a designated group, nonprofits with international partners, immigrant communities, or advocacy ties could be swept in, facing loss of state benefits without a criminal conviction or clear evidentiary standard.

Source: International Center for Not-for-Profit Law, "State-Level Terrorism Designation Laws and U.S. Nonprofits" — https://www.icnl.org/our-work/us-program/state-terrorist-organization-designation-laws-us-nonprofits

🟢 **New York Lawmakers Pass Long-Sought Nonprofit Contracting Reform Bill**

After years of nonprofits absorbing months-long payment delays under state contracts, the New York Legislature passed bills requiring clearer payment timelines, expanded bridge financing access, and standardized renewal procedures for state-nonprofit contracts. The bills now await Governor Hochul's signature; she vetoed a similar measure last December over constitutional and fraud-risk concerns. If signed, the reforms could ease chronic cash-flow strain that has pushed some human-service nonprofits to take out loans just to make payroll.

Source: Yonkers Times, "Nonprofit Leaders Applaud Legislature for Passing Contracting Reform Bills to Fix New York's Broken Payment System" — https://yonkerstimes.com/nonprofit-leaders-applaud-legislature-for-passing-contracting-reform-bills-to-fix-new-yorks-broken-payment-system/

🟢 **North Carolina Becomes 22nd State to Shield Nonprofit Donor Data From Government Disclosure**

North Carolina's Personal Privacy Protection Act, which took effect after lawmakers overrode Governor Stein's veto, bars state and local agencies from demanding or releasing personal information tied to nonprofit donors, members, or volunteers, with civil penalties up to $7,500 and possible misdemeanor charges for violations. Nonprofits gain a clearer shield against compelled donor disclosure in licensing, contracting, or investigatory contexts, though the law includes carve-outs for court orders, criminal probes, and existing tax-filing requirements.

Source: People United for Privacy, "North Carolina Passes the Bipartisan Personal Privacy Protection Act" — https://unitedforprivacy.com/north-carolina-passes-the-bipartisan-personal-privacy-protection-act/

🟢 **Connecticut Overhauls Earmark Oversight After Nonprofit Subgrant Fraud Scandal**

Governor Lamont signed Public Act 26-27 after a forensic audit found a state senator personally directed how a Hartford nonprofit, Blue Hills Civic Association, subgranted over $11 million in legislative earmarks, some to entities now under federal investigation. The new law requires lawmakers to name earmark recipients and explain their purpose, and mandates state approval before any nonprofit subgrants public earmark dollars further, adding a compliance step nonprofits receiving earmarked funds must now navigate.

Source: Office of Governor Ned Lamont, "Governor Lamont Signs Legislation Increasing Transparency on Earmarks" — https://portal.ct.gov/governor/news/press-releases/2026/05-2026/governor-lamont-signs-legislation-increasing-transparency-on-earmarks

🟡 **Hawaii's New Consent Requirement for Online Fundraising Platforms Takes Effect**

Hawaii's amended Act 205, effective July 1, requires online charitable fundraising platforms like GoFundMe to obtain signed consent from an authorized representative before enabling donations to a Hawaii-based nonprofit or letting supporters fundraise on its behalf. Nonprofits that haven't submitted consent forms risk being paused from receiving Hawaii-based donations entirely. The law, prompted by concerns after the Maui wildfires, mirrors California's earlier platform-regulation framework and may spread to other states.

Source: Honolulu Star-Advertiser, "New law changes fundraising for Hawaii nonprofits" — https://www.staradvertiser.com/2026/06/15/hawaii-news/new-law-changes-fundraising-for-hawaii-nonprofits/

🟢 **Colorado Delays and Narrows Its Landmark AI Law, Easing Near-Term Pressure on Nonprofits**

Governor Polis signed SB 189 in May, postponing Colorado's comprehensive AI Act from June 30, 2026, to January 1, 2027, while stripping out risk-management, impact-assessment, and algorithmic-discrimination reporting duties in favor of a narrower disclosure-based framework. Nonprofits using AI tools for hiring, client screening, or benefits decisions get more runway before facing compliance obligations, though the delay follows separate federal litigation and Colorado remains likely to have the nation's most far-reaching state AI law.

Source: Hunton Andrews Kurth, "Colorado AI Act Amended and Effective Date Delayed" — https://www.hunton.com/privacy-and-cybersecurity-law-blog/colorado-ai-act-amended-and-effective-date-delayed

🟢 **Virginia Expands Health Insurance Pooling Options for Charitable Nonprofits**

Governor Spanberger signed HB 353, effective July 1, allowing 501(c)(3) organizations to form or join benefits consortia to pool risk and purchasing power for employee health coverage, a option previously limited to 501(c)(5) and (6) groups. Small and mid-sized nonprofits, which often lack bargaining leverage with insurers, gain a new tool to offer more competitive benefits, though most employees likely won't see new options until carriers and consortia finalize plans next year.

Source: Center for Nonprofit Excellence, "Governor Signs Virginia House Bill 353, Opening Door to Affordable Health Coverage for Virginia's Nonprofit Workforce" — https://thecne.org/2026/05/05/governor-signs-virginia-house-bill-353-opening-door-to-affordable-health-coverage-for-virginias-nonprofit-workforce/

🟢 **Minnesota Legislature Adjourns Without Major New Burdens, but Nonprofit Priorities Slide to 2027**

Minnesota's 2026 session closed on time in May with a $1.2 billion capital package and a rescue deal for a safety-net hospital, but lawmakers, distracted by an even-split House and the fall election, left several nonprofit-sector priorities, including expanded civic-participation and grantmaking-transparency measures, unresolved. With all 201 legislative seats on this November's ballot and roughly 40 retirements announced, nonprofits should expect a substantially different Legislature to revisit these issues next year.

Source: Minnesota Reformer, "Takeaways from the 2026 Minnesota legislative session" — https://minnesotareformer.com/2026/05/18/takeaways-from-the-2026-minnesota-legislative-session/

🟡 **Virginia's New Pay-Transparency Law Bars Salary-History Questions Starting This Month**

Effective July 1, Virginia prohibits employers, including nonprofits, from asking applicants about wage or salary history or using it to set pay, and requires every job posting to disclose a good-faith wage or salary range. The law carries a private right of action alongside attorney general enforcement, so nonprofit HR teams should strip salary-history fields from applications and add compensation ranges to postings now to avoid statutory damages starting at $1,000.

Source: Williams Mullen, "Virginia Mandates Pay Transparency and Bans Pay History Inquiries Starting July 1" — https://www.williamsmullen.com/insights/news/legal-news/virginia-mandates-pay-transparency-and-bans-pay-history-inquiries-starting

🟢 **Nurses at Nonprofit Kansas Hospital System Stage One-Day Strike Over Safety**

Roughly 1,200 nurses at Ascension Via Christi's St. Francis and St. Joseph hospitals in Wichita walked out for one day this week, demanding weapons-detection systems after a shooting death outside the emergency department and a separate bomb threat. The nonprofit health system continued operating with replacement staff throughout the walkout. The action highlights growing workplace-violence and staffing pressures facing nonprofit hospital systems nationwide as contract talks continue without resolution on safety measures nurses have raised for years.

Source: KAKE.com, "Wichita nurses hold one-day strike for patient and staff safety" — https://www.kake.com/home/wichita-nurses-hold-one-day-strike-for-patient-and-staff-safety/article_de7fb6a5-7a86-4fce-b2e5-1cd5a3b7c8f6.html

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Summary

This week's developments underscore a sector navigating simultaneous pressure from federal, IRS, employment, and state sources. At the federal level, OMB's proposed rewrite of the Uniform Guidance (2 CFR Part 200) would hand agencies expanded termination and suspension authority over grants, even as courts continue to check abrupt terminations by ordering USDA to reinstate canceled rural grants. On the employment front, nonprofit employers confront overlapping deadlines: a July 24 date for federal contractor anti-DEI clauses, the elimination of the Form I-9 technical-violation cure period, and reverification obligations for Temporary Protected Status workers following the Supreme Court's Mullin v. Doe decision, all while the EEOC pivots enforcement toward overt discrimination claims. A federal court's vacatur of the PSLF employer disqualification rule offers a measure of relief. On the IRS and finance side, expanded executive compensation excise tax guidance and intensifying fraud scrutiny warrant attention, alongside updated AICPA and FASB standards affecting nonprofit financial statements. At the state level, Florida's and Indiana's new "terrorist organization" designation laws pose serious due-process risks for advocacy nonprofits, while other states advance pay-transparency, donor-privacy, contracting and earmark-oversight, and fundraising-platform reforms. Across every section, the throughline is the same: nonprofit leaders should prioritize funding contingency planning, tighten compliance documentation, and consult qualified advisors before acting on any specific development.

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