North Carolina Center for Nonprofits

Many missions | 100 counties | One voice

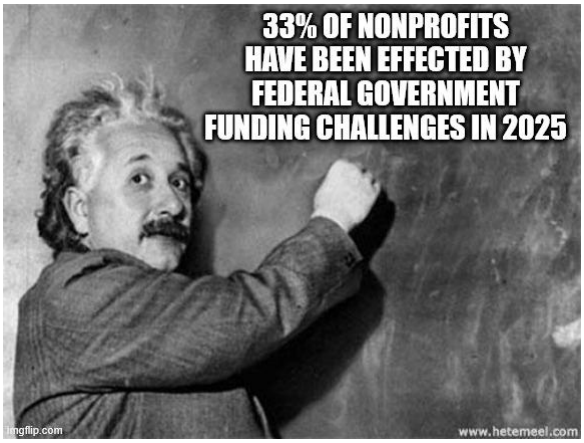
Highlights of Recent Public Policy Developments Affecting Nonprofits

Updated: November 17, 2025

***Note:** The Center does not officer legal advice to nonprofits. This summary is not intended to give legal advice and should not be relied on without your attorney's counsel.*

Federal grant freezes, terminations, and cuts

Context:



- Since January, the Trump Administration and various federal agencies have attempted to freeze federal funding to nonprofits, have terminated a variety of federal grants to nonprofits, and have threatened not to renew or extend other federal grants to nonprofits.
- According to an October 2025 report from the Urban Institute, 33% of nonprofits reported experiencing some type of funding disruption in the first 4-6 months of 2025, including 21% that lost at least some government funding, 27% reporting a delay, pause, or freeze in government funding, and 6% reporting receiving a stop work order.

Recent developments:

- On February 26, President Trump issued an EO 14222, which gives the Department of Government Efficiency (DOGE) broad authority to work with federal agencies to terminate or modify a wide range of federal grants to nonprofits. The Executive Order directs agency heads to work with DOGE to review every federal grant and to terminate or modify those that are inconsistent with the Trump Administration's priorities.
- On April 15, President Trump issued EO 14275 directing the Federal Acquisition Regulatory Council and the heads of federal agencies to make significant changes to the Federal Acquisition Regulation (FAR). FAR provides a wide variety of legal protections for nonprofits with federal grants, contracts, and cooperative agreements and sets forth a variety of rules that apply to nonprofits with federal funding. The Executive Order calls for revisions to FAR to ensure that it "contains only provisions that are required by statute or that are otherwise necessary to support simplicity and usability, strengthen the efficacy of the procurement system, or protect economic or national security interests."

- In June, the U.S. Department of Justice (DOJ) issued a memo with guidance on the types of policies and practices that are deemed "unlawful discrimination" for recipients of federal funds, including nonprofits with federal grants or contracts. Among other things, the memo asserts that diversity, equity, and inclusion (DEI) policies and practices are unlawful discrimination and asserts that "unlawful proxy discrimination" is unlawful discrimination, explaining that "facially neutral criteria . . . that function as proxies for protected characteristics violate federal law if designed or applied with the intention of advantaging or disadvantaging individuals based on protected characteristics." The memo gives several examples of "proxy discrimination" in hiring and promotion decisions and determinations about program recipients for nonprofits receiving federal funding. Examples of "proxy discrimination" include the use of criteria like "cultural competence," "lived experience," "overcoming obstacles" narratives, and targeting programs and services to specific geographic areas based on their racial or ethnic composition. The memo implies that federal agencies could freeze or discontinue grant funding for nonprofits that are engaged in practices or policies that DOJ deems discriminatory, either directly or through proxy criteria.
- On August 7, President Trump issued EO 14332 making several significant changes to the process by which federal agencies award, oversee, and terminate federal grants, including grants to nonprofits. Several of these changes could have significant implications for nonprofits that currently have federal grants and for those applying for federal grants in the future. The Executive Order directs that each agency have a political appointee responsible for oversight of its grant process with broad authority to ensure that grants are consistent with Trump Administration priorities. It also prohibits federal grants from being awarded to nonprofits that: (a) use racial preferences, including "proxies for race" in employment or program participation decision; (b) don't acknowledge "the sex binary in humans or the notion that sex is a chosen or mutable characteristic"; and (c) serve undocumented immigrants. The Executive Order gives priority to nonprofits with lower indirect cost rates in competitive grant application processes and requires OMB to revise its Uniform Guidance to require all federal grant agreements to include provisions allowing for "termination for convenience" by federal agencies. In addition, it requires OMB to revise its Uniform Guidance to "appropriately limit the use of discretionary grant funds for costs related to facilities and administration." Potentially, this could mean that OMB may soon make changes to last year's major improvement of the Uniform Guidance that included a *de minimis* 15% indirect cost rate on federal grants, for which the Center and many other nonprofits have successfully advocated for nearly a decade.
- In late August, President Trump sent a memorandum to the Attorney General directing DOJ "in consultation with the heads of executive departments and agencies, to investigate whether Federal grant funds are being used to illegally support lobbying activities (See, 31 U.S.C. 1352) and to take appropriate enforcement action." The memorandum appears to misinterpret the relevant federal statute, which does not actually prohibit nonprofits (or businesses) that receive federal grants, contracts, or cooperative agreements from lobbying. The memorandum directs the Attorney General to report to the President on the results of investigations into lobbying activities by federal grant recipients in 180 days. It is unclear what, if any, enforcement actions federal agencies may attempt to take against nonprofits that receive federal grants and are engaged in lobbying activities.
- An August U.S. Supreme Court ruling makes it more difficult for nonprofits that have had their federal grants terminated to have those grants reinstated by federal courts. The controlling opinion in the *National Institutes of Health v. American Public Health Association* case means that, to have terminated grants reinstated, nonprofits will now have to win separate lawsuits in two federal courts.
- In early September, a federal trial court in Massachusetts invalidated more than $2 billion in federal grant terminations and frozen federal funds to Harvard University. Among other things, the court found that the government's grant terminations were illegal retaliation for speech

protected under the First Amendment, placed unconstitutional conditions on Harvard's receipt of federal funds, and used unconstitutional coercion to force the university to suppress free speech rights. The court ruling in the Harvard case suggests that it is not legally permissible for federal agencies to freeze funding for, and terminate grants to, nonprofits simply because organizations will not acquiesce to the Trump Administration's policy priorities.

- In late September, a federal judge in California issued an injunction preventing several federal agencies from requiring certain grantees to certify that they are not engaged in DEI practices and activities. The court found that these grant conditions violated the federal Administrative Procedures Act by imposing requirements on federal grantees that were not authorized by Congress. The injunction only applies to grants from the U.S. Department of Housing and Urban Development (HUD), the U.S. Department of Transportation (DOT), and the U.S. Department of Health and Human Services (HHS) to the plaintiffs in the case, which include several cities and nonprofits in California. The U.S. Supreme Court's ruling in *Trump v. CASA* from June effectively prevented the court in this case from issuing a broader injunction that applied to all nonprofits that have had similar anti-DEI grant conditions imposed on them by HUD, DOT, and HHS. However, the judge's ruling suggests that North Carolina nonprofits that have been required to comply with similar grant conditions from these or other federal agencies may be able to have these grant conditions invalidated if they were to initiate their own lawsuits against their granting agencies.
- Because Congress and the White House could not agree on appropriations legislation for the new federal fiscal year, the federal government was shut down between October 1 and November 13. Most notably for nonprofits, funding for the Supplemental Nutrition Assistance Program (SNAP) ran out on October 31, meaning that SNAP funding was suspended on November 1. Congress agree to end the shutdown with a continuing resolution to fund the federal government through January 30, 2026. As part of that continuing resolution, Congress provided SNAP funding for the full fiscal year (through September 30, 2026), meaning that another government shutdown in the first nine months of 2026 will not affect SNAP funding.

<u>For more information:</u>

- EO 14222, Implementing the President's Department of Government Efficiency Cost Efficiency Initiative: https://www.federalregister.gov/documents/2025/03/03/2025-03527/implementing-the-presidents-department-of-government-efficiency-cost-efficiency-initiative
- EO 14275, Restoring Common Sense to Federal Procurement: https://www.federalregister.gov/documents/2025/04/18/2025-06839/restoring-common-sense-to-federal-procurement
- EO 14332, Improving Oversight of Federal Grantmaking:, https://www.federalregister.gov/documents/2025/08/12/2025-15344/improving-oversight-of-federal-grantmaking
- DOJ memo on "unlawful discrimination" by federal grantees: https://www.justice.gov/ag/media/1409486/dl?inline
- President Trump memo to AG on lobbying investigations of federal grantees: https://www.whitehouse.gov/presidential-actions/2025/08/use-of-appropriated-funds-for-illegal-lobbying-and-partisan-political-activity-by-federal-grantees/
- *National Institutes of Health v. American Public Health Association* Supreme Court decision: https://www.supremecourt.gov/opinions/24pdf/25a103_kh7p.pdf
- District court ruling reinstating $2 million in terminated and frozen grant funds to Harvard University: https://storage.courtlistener.com/recap/gov.uscourts.mad.283718/gov.uscourts.mad.283718.238.0.pdf

- California district court ruling finding grant conditions related to DEI impermissible: https://www.bloomberglaw.com/public/desktop/document/CityofFresnoetalvTurneretalDocketNo325cv07070NDCalAug202025CourtD/1?doc_id=XJQ0KBU1G9QLRR67OAS7GU630
- Urban Institute report on impact of government funding disruptions on nonprofits in 2025: https://www.urban.org/sites/default/files/2025-10/How_Government_Funding_Disruptions_Affected_Nonprofits_in_Early_2025.pdf

Johnson Amendment litigation and future IRS enforcement of nonpartisanship by 501(c)(3)s

Context:

- For more than 60 years, a provision in Section 501(c)(3) of the Internal Revenue Code sometimes known as the Johnson Amendment prohibits charitable nonprofits, foundations, and houses of worship from endorsing or opposing candidates for office and from making political campaign contributions.

Recent developments:

- In June, the Internal Revenue Service filed a motion in a federal court in Texas asking a judge to allow two churches to make political endorsements to members of their congregations. The judge has not yet issued the requested consent order. Like other 501(c)(3) tax-exempt organizations, churches may not "participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office." Essentially, through the court filing, the IRS is interpreting the Johnson Amendment as having a narrow exemption for communications from churches and other houses of worship to their congregations "through [their] customary channels of communication on matters of faith in connection with religious services."
- In July, Americans United for Separation of Church and State (AU), a left-leaning advocacy group, filed a motion to intervene in the case, effectively arguing that it has a legal interest in the case and that none of the parties to the case adequately represent its interest.
- The court will hear oral arguments in the case on November 25 and could issue a ruling next year. During those oral arguments, the court will consider whether to allow AU to intervene in the case. If the court grants the motion to intervene, AU would have the right to appeal the consent judgment, which could ultimately lead to a broader appellate court ruling (perhaps ultimately by the U.S. Supreme Court) on whether the nonpartisanship provision in Section 501(c)(3) of the Internal Revenue Code is allowable under the First Amendment. There is a strong chance that an appellate court would strike down the nonpartisanship provision in its entirety, potentially affecting *all* 501(c)(3) nonprofits.
- On September 30, a federal court ruled that the Internal Revenue Service (IRS) guidance on what constitutes impermissible partisan political activities by 501(c)(4) social welfare organizations is unconstitutionally vague. Unlike 501(c)(3) nonprofits, which are prohibited from engaging in any partisan political activities, 501(c)(4)s can engage in some partisan political activities as long as partisan politics are not their primary activities. Since 2016, Congress has prohibited the IRS from issuing formal guidance defining what is permissible partisan political

intervention for 501(c)(4) organizations. The court noted that this congressional prohibition means that the IRS cannot issue regulations or a revenue ruling to provide more clarity on what constitutes "political activities" and what is meant by "primary activities" of 501(c)(4) social welfare organizations. Consequently, the court has asked both parties to recommend a framework for defining these terms, and it is possible that the court could then establish standards for what is permissible partisan political engagement for 501(c)(4)s. These definitions also could affect how partisan political engagement is defined for 501(c)(3) nonprofits.

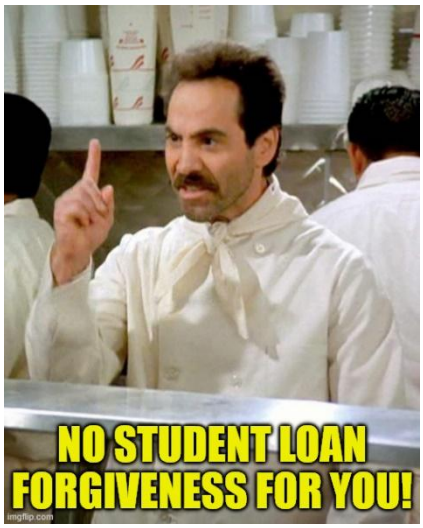
- On September 30, the IRS announced that it plans to issue "guidance on the statutory provision in §501(c)(3) against participation or intervention in political campaigns (the "Johnson Amendment")." The IRS last released formal guidance on the nonpartisanship provision in 2007 (Revenue Ruling 2007-41). It is possible that its forthcoming guidance on nonpartisanship could:
    1. Formalize the assertion from the IRS's pending consent agreement that the nonpartisanship provision has a narrow exemption for communications from churches and other houses of worship to their congregations "through [their] customary channels of communication on matters of faith in connection with religious services"; and/or
    2. Assert that the nonpartisanship provision limits the ability of 501(c)(3)s to engage in nonpartisan voter registration, voter education, or get-out-the vote activities.

For more information:

- IRS Revenue Ruling 2007-41: https://www.irs.gov/pub/irs-tege/rr2007-41.pdf.
- The Center's analysis of the proposed consent judgment and its implications for nonprofits: https://ncnonprofits.org/public-policy-blog/are-501c3-nonprofits-still-required-be-nonpartisan-yes-they-are

Public Service Loan Forgiveness rulemaking

Context:



- Under the Public Services Loan Forgiveness (PSLF) program, student loan borrowers who work in public service jobs – including positions with 501(c)(3) nonprofits – for 10 years while paying off their student loans are eligible to have the remainder of their federal student loans forgiven. PSLF has enabled many young professionals to afford careers in the nonprofit sector.

Recent developments:

- On March 7, President Trump issued EO 14235 directing the U.S. Department of Education to revise the definition of "public service" in its PSLF rulemaking to exclude "organizations that engage in activities that have s substantial illegal purpose."
- In August, the U.S. Department of Education published a proposed rule limiting employer eligibility for PSLF. The Center submitted public comments sharing concerns about the proposed rule. Overall, nearly 14,000 individuals and organizations submitted public comments, the vast majority of which expressed concerns about the proposed rule.

- The Department of Education published its final rule on PSLF eligibility on October 31, making no substantive changes to the proposed rule. The final rule excludes employers – potentially including some 501(c)(3) nonprofits – from being eligible employers for PSLF if they are engaged in "substantial illegal purposes." The specific "illegal purposes" in the rule are consistent with those identified in EO 14235 but are found nowhere in the statute authorizing PSLF. Under the final rule, the Secretary of Education has the authority to determine "by a preponderance of the evidence" that an otherwise eligible nonprofit has engaged in activities that have a substantial illegal purpose with only minimal due process for the nonprofit. Once a nonprofit has been deemed to have engaged in activities that have a substantial illegal purpose, it would remain an ineligible employer for PSLF for at least 10 years. The final rule also requires that nonprofits must certify in their application to be a PSLF-eligible employer that they do not participate in activities that have a substantial illegal purpose, which may be difficult and unclear for staff to determine if the organizaiton provides services in certin mission areas or to particular populations. The Center is concerned that this new rule could affect PSLF eligibility for some nonprofit employees.
- The final rule takes effect on July 1, 2026 and will only apply to "substantial illegal activities" that take place after that date. This means that nonprofits with employees currently in the PSLF program (or those that might have PSLF-eligible employees in the future) have eight months to review their operations to ensure that they are not engaged in "substantial illegal activities" as defined (quite broadly) in the rule and to make any necessary changes so that they are in compliance by July 1, 2026.
- On November 3, a group of nonprofits, local governments, and associations of public service employees filed a lawsuit asking a federal court to find the final rule unconstitutional and to issue an injunction stopping the Department from implementing the rule.

For more information:

- EO 14235, Restoring Public Service Loan Forgiveness: https://www.federalregister.gov/documents/2025/03/12/2025-04103/restoring-public-service-loan-forgiveness
- Final rule: https://public-inspection.federalregister.gov/2025-19729.pdf
- Center's public comments: https://ncnonprofits.org/sites/default/files/files/2025-09/North%20Carolina%20Center%20for%20Nonprofits%20public%20comments%20on%20PSLF%20proposed%20rulemaking%20-%209-12-25.pdf
- Center's analysis of the final rule: https://ncnonprofits.org/public-policy-blog/final-pslf-regulations-make-virtually-no-changes-problematic-proposed-rule

Is DEI now "illegal discrimination"?

Context:

- In a variety of Executive Orders, departmental memoranda, and public statements, President Trump and others in his administration have indicated this year that they believe that diversity, equity, and inclusion (DEI) programs and practices constitute "illegal discrimination."
- In the 2023 *Students for Fair Admission v. Harvard* case, the U.S. Supreme Court ruled that affirmative action admission programs at Harvard University and the University of North Carolina were unconstitutional because they violated the equal protection clause of the Fourteenth Amendment. Notably, Chief Justice Roberts wrote in his majority opinion: "Eliminating racial discrimination means eliminating all of it."
- In 2024, the Fearless Foundation in Atlanta discontinued a grant program for businesses owned by black women in light of a pending ruling from the Court of Appeals for the 11th Circuit that a grant program for businesses owned by Black women violated the Civil Rights Act of 1866 (which prohibits racial discrimination in private contracts).

Recent developments:

- On January 20, President Trump issued EO 14151 directing the Office of Management and Budget and Office of Personnel Management to work with federal agencies to end DEI programs in federal agencies and federal grant programs.
- On January 21, President Trump issued EO 14173 directing every federal grant or contract recipient to certify that it complies with federal anti-discrimination laws and that it does not operate programs promoting DEI that violate federal antidiscrimination laws. The Executive Order also directs OMB to remove all references to DEI principles in federal grant programs, requirements, and activities, and it directs the U.S. Department of Justice to identify major private-sector entities that have DEI programs and practices and to develop steps to deter private entities, including nonprofits, from having DEI programs and practices in place.
- Several federal agencies have required grant recipients to agree to amended grant agreements and/or have required new grant applicants to agree to grant agreements that prohibit grantees from having DEI programs and practices in place.
- In March, the Equal Employment Opportunity Commission (EEOC) published two fact sheets on its new interpretation of the ways that DEI initiatives, policies, programs, and practices may be impermissible discrimination under Title VII. One of the fact sheets provides answers to 11 common questions about the EEOC's position on DEI and Title VII discrimination, noting (among other things) that "[t]he EEOC's position is that there is no such thing as 'reverse' discrimination, there is only discrimination." The other fact sheet provides tips for how employees can identify DEI-related workplace discrimination and the steps they can take to initiate legal action against their employers. Small nonprofits should be aware that Title VII generally does not apply to organizations with fewer than 15 employees.
- On April 23, President Trump issued EO 14281 directing federal agencies to stop using disparate impact theory. Disparate impact liability is a principle of civil rights law that allows individuals or groups to have protection against a wide range of policies – such as height and weight requirements, criminal history or credit history tests, and educational requirements –

that disproportionally affect people who are part of a protected class (based on race, sex, age, and other factors).

- As noted above in the section on federal grant freezes, terminations, and cuts, in a June memo, the USDOJ has indicated that DEI programs and practices, including the use of "proxy discrimination" are impermissible for federal grantees.
- President Trump has threatened to direct the IRS to revoke the tax exempt status of Harvard Universities, one of the oldest and largest 501(c)(3) organizations in the country, this year, in part because of the school's commitment to DEI. A conservative nonprofit also sent a letter to the IRS this year asking for an investigation of several large, prominent private foundations and charitable nonprofits that have DEI policies and programs on the grounds that these DEI programs are illegal discrimination based on the *Students for Fair Admission* decision. So far, the IRS has not taken any adverse action on any 501(c)(3) organization based on its DEI programs or practices.
- On September 30, the IRS announced that it plans to issue "guidance on the application of fundamental public policy against racial discrimination, including consideration of recent caselaw, in determining the eligibility of private schools for recognition of tax-exempt status under §501(c)(3)." The concept of a "fundamental public policy against racial discrimination" comes from the 1983 U.S. Supreme Court ruling in *Bob Jones v. United States* where the Court found that the IRS could revoke a nonprofit private college's tax-exemption under Section 501(c)(3) because its policy of denying admission to individuals in interracial relationships violated a "fundamental public policy" of eradicating racism in education. It is quite likely that the "consideration of recent caselaw" is a reference to the *Students for Fair Admission v. Harvard* decision. Potentially, IRS guidance combining the reasoning from these two cases could lead to a conclusion that nonprofit private schools with race-based practices – including those with diversity, equity, and inclusion (DEI) policies and practices – are not eligible for tax-exemption under Section 501(c)(3) of the Internal Revenue Code.

For more information:

- *Students for Fair Admission v. Harvard* decision: https://www.supremecourt.gov/opinions/22pdf/20-1199_hgdj.pdf
- *Bob Jones University v. United States* decision: https://supreme.justia.com/cases/federal/us/461/574/
- EO 14151, Ending Radical and Wasteful Government DEI Programs and Preferencing: https://www.federalregister.gov/documents/2025/01/29/2025-01953/ending-radical-and-wasteful-government-dei-programs-and-preferencing
- EO 14173, Ending Illegal Discrimination and Restoring Merit-Based Opportunity: https://www.federalregister.gov/documents/2025/01/31/2025-02097/ending-illegal-discrimination-and-restoring-merit-based-opportunity
- EO 14281, Restoring Equality of Opportunity and Meritocracy: https://www.federalregister.gov/documents/2025/04/28/2025-07378/restoring-equality-of-opportunity-and-meritocracy
- EEOC fact sheets on DEI and employment discrimination: https://www.eeoc.gov/wysk/what-you-should-know-about-dei-related-discrimination-work and https://www.eeoc.gov/what-do-if-you-experience-discrimination-related-dei-work
- DOJ memo on "unlawful discrimination" by federal grantees: https://www.justice.gov/ag/media/1409486/dl?inline

Final note:

- Other than the *Students for Fair Admission* decision, which is applicable only to government entities and government grantees through the Fourteenth Amendment equal protection claims, none of the insinuations that DEI is "illegal discrimination" is settled law.

Allegations of nonprofit involvement in political violence or terrorism

Context:

- After the Charlie Kirk assassination, President Trump has sought legal action against nonprofits and foundations that are alleged to have instigated or funded political violence.

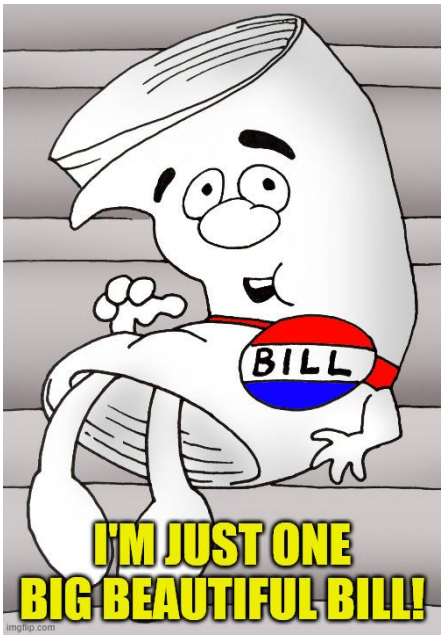
Recent developments:

- On September 22, President Trump announced an Executive Order designating Antifa as a "domestic terrorist organization" and directing federal agencies "to investigate, disrupt, and dismantle any and all illegal operations – especially those involving terrorist actions – conducted by Antifa or any person claiming to act on behalf of Antifa." This Executive Order is misleading both because Antifa is a political movement, not an organization, and because federal law does not include a designation for, or penalties against, "domestic terrorist organizations." The Executive Order has not been published to the Federal Register, so it is not legally enforceable.
- On September 25, President Trump issued a National Security Presidential Memorandum (NSPM) focused on countering domestic terrorism and organized political violence. The NSPM directs the National Joint Terrorism Task Force to "investigate, prosecute, and disrupt entities and individuals engaged in acts of political violence and intimidation designed to suppress lawful political activity or obstruct the rule of law," including investigations of nonprofits and foundations that engage in or fund activities that could foster political violence. It also directs DOJ to develop guidance on the types of activities on domestic terrorism, including "an identification of any behaviors, fact patterns, recurrent motivations, or other indicia common to organizations and entities that coordinate these acts." Further, the NSPM implies that the IRS can revoke the tax-exempt status of organizations and foundations that are deemed to be supporting political violence or domestic terrorism.
- On September 29, DOJ published a memo aimed at preventing political violence against the U.S. Immigration and Customs Enforcement (ICE). The memo suggests that nonprofits and their staff, volunteers, and board members, who are engaged in anti-ICE speech or activities could be subject to DOJ investigations and prosecution.

For more information:

- Executive Order (not published on the Federal Register), Designating Antifa as a Domestic Terrorist Organization: https://www.whitehouse.gov/presidential-actions/2025/09/designating-antifa-as-a-domestic-terrorist-organization/
- National Security Presidential Memorandum, Countering Domestic Terrorism and Organized Political Violence: https://www.federalregister.gov/documents/2025/09/30/2025-19141/countering-domestic-terrorism-and-organized-political-violence
- Reuters article on potential actions against nonprofits engaged in political violence or terrorism: https://www.reuters.com/legal/government/trumps-war-left-inside-plan-investigate-liberal-groups-2025-10-09/

Nonprofits and the One Big Beautiful Bill Act



Context:

- On July 4, President Trump signed the One Big Beautiful Bill Act into law. Congressional Republicans used the budget reconciliation process to pass this law this spring and summer. It enacts many of President Trump's tax and spending priorities.
- According to a recent survey by the Center for Effective Philanthropy, 42% of nonprofits believe the One Big Beautiful Bill Act will have a negative impact on fundraising.

The Top 6 Things for Nonprofits to Know about the One Big Beautiful Bill:

1. It includes a new universal charitable deduction, capped at $1,000 annually for individual taxpayers and $2,000 annually for married couples. This was a big policy win for the nonprofit sector.
2. It limits tax incentives for charitable giving for wealthy individuals and corporations.
3. It does not include an increase in the tax on investment income of private foundations or expansion of unrelated business income tax on nonprofits, both of which were considered in earlier versions of the bill.
4. It includes a new tax credit of up to $1,700 per year for donations to 501(c)(3)s that grant scholarships to pay for expenses of K-12 students, including private school tuition and expenses and public school expenses. States must opt in to this federal tax credit. The NC General Assembly is likely to override Governor Stein's veto of North Carolina's opt-in law in the near future.
5. The bill makes several significant changes to Medicaid, including limiting financing options for states and requiring state to add work requirements for Medicaid recipients. This will create significant Medicaid financing challenges for North Carolina, will likely end Medicaid expansion in North Carolina (ending Medicaid coverage for more than 600,000 North Carolinians), and will create significant financial challenges for hospitals and other health care providers.
6. The bill shifts a portion of the cost of SNAP benefits from the federal government to state governments, likely creating fiscal challenges for the state budget in North Carolina. It also increases work requirements for SNAP beneficiaries, meaning that fewer North Carolinians will receive federal food assistance in the future.

For more information:

- For more on these provisions and other parts of the One Big Beautiful Bill Act that could affect nonprofits, see the Center's analysis of the bill: https://ncnonprofits.org/public-policy-blog/tax-provisions-affecting-nonprofits-one-big-beautiful-bill-act

State Budget Status and Implications for Nonprofits

Context:

- Four months into the state's fiscal year, the NC Senate and the NC House of Representatives remain at an impasse on details of the state budget for FY 2025-27. North Carolina law allows state government operations to continue at their current funding levels if legislators and the Governor are unable to agree on a new state budget, so a state budget is not technically a "must pass" bill since the state government will not shut down without a new state budget. However, the lack of a budget has a variety of consequences for state government operations, for nonprofits, and for North Carolinians.
- As part of the impasse on the state budget, legislators have not approved full Medicaid rebase funding (essentially adjusting Medicaid funding to reflect increased enrollment and costs) for the fiscal year beginning on July 1, 2025. As a result, on October 1, the NC Department of Health and Human Services (DHHS) cut rates for Medicaid providers, including many nonprofits, by 3% with some types of providers and services receiving a 10% rate cut. On November 10, a state court judge issued an injunction preventing DHHS from implementing rate cuts for providers of one type of service to children with autism. That ruling does not prevent rate cuts to other providers. It is possible that DHHS could roll back the Medicaid rate cuts if legislators provide full funding for Medicaid costs for the current fiscal year.
- In June, the NC General Assembly passed a law that prohibits the NC State Bar from making grants through its Interest on Lawyers' Trust Accounts (IOLTA) grant program from July 1, 2025 through June 30, 2026. The IOLTA grant program typically provides grant funding to a variety of legal services nonprofits. The new state law removed a significant revenue source for many of these organizations for a year. Potentially, this funding could be restored in a state budget (if legislators eventually pass one).

For more information:

- NC Budget and Tax Center blog post: https://ncbudget.org/nc-lawmakers-havent-passed-a-comprehensive-state-budget-what-does-that-mean-for-me/

New State Laws Affecting Nonprofits

Context:

- The NC General Assembly ended its main 2025 session in late June and have scheduled monthly mini-sessions between then and the start of its short session in April 2026. Governor Stein vetoed 15 bills at the end of the session, and legislators have overridden eight of his vetoes.

New laws affecting nonprofits:

- A new nonprofit privacy law, which takes effect on December 1, will prohibit state and local government agencies from:
    1. Requiring nonprofits to provide the names of their donors, members, or volunteers;
    2. Publicly disclosing the names of any nonprofit donors, members, or volunteers that it obtains; and
    3. Requiring any current or prospective contractor or grantee from identifying any nonprofits to which it has "provided financial or nonfinancial support."

  The law includes several exceptions, including reports or disclosures required by the state campaign finance statute, investigations by the Attorney General or Secretary of State, information requested pursuant to a court warrant, certain litigation discovery requests, and as evidence in litigation. The limitations on state and local government agencies collecting and disseminating information about people associated with nonprofits does not cover nonprofit board members, officers, or staff.
- A new law clarifies the powers of the NC State Auditor. Notably, the final version does not include a provision from the original bill that would have treated nonprofits that receive state funds as state agencies and nonprofits receiving federal funds as federal agencies. Instead, the bill creates a new category of "publicly funded entities" which includes nonprofits that receive state or federal funding. The bill clarifies existing law that gives the State Auditor authority to conduct audits of nonprofits with state or federal funds. Notably, it also limits the scope of audits of nonprofits by the State Auditor to any state or federal funds received or held by nonprofits.
- A mini-budget bill establishes the Division of Accountability, Value, and Efficiency (DAVE) as a new division within the State Auditor's office to identify cost-cutting measures in state government. DAVE (a semi-clever pun since the current State Auditor is Dave Boliek) will be similar to the federal Department of Government Efficiency (DOGE). The mini-budget provides funding for the State Auditor to hire up to 45 DAVE staff members.

Vetoed bills with implications for nonprofits:

- Governor Stein vetoed a bill (H.B. 171) seeking to eliminate diversity, equity, and inclusion (DEI) initiatives in state and local government in North Carolina. The bill, which includes a clear definition of "diversity, equity, and inclusion," would prohibit state agencies, local governments, and public schools from promoting, supporting, funding, implementing, or maintaining DEI programs, policies, or initiatives and from applying for, accepting, or using federal funds, grants, or financial assistance that require compliance with DEI policies, initiatives, or mandates. It also would require the State Auditor to conduct periodic compliance audits to ensure that state agencies did not support DEI programs and initiatives. This spring, the House removed a

portion of the bill that would have significantly limited DEI initiatives and programs in nonprofits with state and local funding. Still, if the bill were to become law, it could change state law to prevent nonprofits from receiving federal or state grants related to DEI that pass through state agencies or local governments, even if future administrations were to revoke President Trump's Executive Orders that have effectively ended most federal grant programs related to DEI.

- Governor Stein vetoed a bill (H.B. 87) that would enable North Carolinians to receive a federal tax credit of up to $1,700 per year for contributions to 501(c)(3) nonprofits that qualify as "scholarship granting organizations" as part of a new law that was part of the One Big Beautiful Bill Act. The new tax credit would take effect for contributions made beginning in 2027.

For more information: David Heinen, Vice President for Public Policy and Advocacy, North Carolina Center for Nonprofits, 919-986-9224 (cell) or dheinen@ncnonprofits.org.