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Federal

What a Federal Default Means to Charitable Nonprofits

Virtually everyone outside of official Washington – from businesses and state/local governments to economists and the general public – agrees that a failure to raise the debt limit and the resulting default on federal debt obligations would be catastrophic in the lives of ordinary Americans. With just over two weeks before the federal government runs out of money – the reputed X-date for default – little progress has been reported between the White House and congressional Republicans. While troubling, it's important to be aware of the looming consequences:

- **Economic Impact:** According to most commentators, a federal default would lead to [higher interest rates](#), including for residential mortgages and credit card debt, [layoffs](#) as high as seven-million workers, and worldwide economic insecurity.
- **Governmental Operations:** Default means “Social Security and federal pension payments might cease; federal agencies would furlough employees; vital economic services such as the post office, Transportation Security

Administration, U.S. Customs and the Federal Aviation Administration would stop,” according to the [National Conference of State Legislatures](#). State budgets, NCSL writes, would also be “severely affected.” Defaulting on the debt would also increase the deficit by raising the costs to pay it back.

- **Nonprofit Operations:** A default would pile even more unfunded burdens on top of exhausted nonprofits currently bearing new weight resulting from last week’s expiration of the pandemic [public health emergency relief programs](#) such as food and health care assistance. That May 11 end-date also adds work for nonprofits addressing the severe [strains on humanitarian relief](#) along the southern border and throughout the country due to the inability of lawmakers to address the need for immigration reforms. See [Pandemic Relief Is Ending, and What It Means to Nonprofits and Foundations](#). Default could be devastating for nonprofits performing services on behalf of governments that could see payments abruptly halt once the debt limit is reached and pending grant applications put on hold. As has happened in the past, federal government shutdowns dramatically increase demand for nonprofit services from both furloughed government workers and individuals who are unable to turn to shuttered government agencies.
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FastView

- **Reforming Federal Grants:** A Senate hearing earlier this month raises the real possibility that bipartisan solutions to many longstanding challenges nonprofits face with the federal grants systems could advance this year. The May 2 hearing on [Improving Access to Federal Grants for Underserved Communities](#) was, according to committee Chair Peters (D-MI), an opportunity to “examine how government can update the federal grants process to help improve communities’ access to critical resources, increase transparency, reduce duplication, and streamline the federal grants process.” The hearing demonstrated a shared recognition by Democrats and Republicans alike that the federal grantmaking system is too complex, inconsistent, burdensome, and difficult for new grantees to access and succeed. Importantly, the hearing demonstrated that the concerns and complaints of small local governments and Tribes are virtually identical to those expressed by frontline nonprofits. In written testimony, the [National Council of Nonprofits](#) laid out challenges expressed by nonprofits throughout the country and proposed numerous

solutions. Additional hearings are anticipated later this year.

- **More House Challenges to Student Debt Cancellation:** Last week the [House Committee on Education and Workforce](#) approved a resolution ([H.J.Res.45](#)) to block President Biden’s student debt cancellation plan using the [Congressional Review Act](#) (CRA) process. If approved by Congress, the resolution would immediately restart student loan payments by [ending the student loan payment pause](#), retroactive to the beginning of the year. Such a retroactive cancellation would automatically render all borrowers in arrears and deem them out of compliance concerning payment obligations for the [Public Service Loan Forgiveness](#) (PSLF) and other programs. The resolution now goes to the full House for consideration, but Senate consideration of a companion resolution ([S.J.Res.22](#)) is unlikely. The National Council of Nonprofits sent a [letter to congressional leaders](#) expressing strong opposition to the impact of the resolutions on the PSLF program. The Biden student debt cancellation plan was put on hold by a lower court and a Supreme Court decision on its legality is expected by the end of June.
 - **House Charitable Act Coming:** On Wednesday (5/17), Representatives Moore (R-UT) and Pappas (D-NH) are scheduled to introduce the House companion version of [the Charitable Act, S. 566](#). The bipartisan bill would enable taxpayers who take the standard deduction (about 88% of taxpayers) to deduct charitable donations of up to one-third of the standard deduction, or about \$4,600 for individuals and \$9,200 for married couples based on the current standard deduction. All charitable nonprofits are invited to sign your organization onto the endorsement letter from the Charitable Giving Coalition: [CGC Letter in Support of Charitable Act - House Introduction](#). The deadline for signing on is **TODAY, May 15 by close of business**. Read more about the [advocacy strategy behind the legislation](#).
 - **Nonprofit “Seat at the Table” Legislation Introduced:** Representatives Mace (R-SC) and McCollum (D-MN) have introduced a bill, the [‘Nonprofit Stakeholders Engaging and Advancing Together \(SEAT\) Act of 2023 \(H.R.3245\)](#), that is designed to create dialogue between the nonprofit sector and the federal government, while addressing numerous, longstanding challenges like federal grants reform. [According to the bill sponsors](#), “The legislation will improve access to data about the nonprofit sector, and leverage the mission, knowledge, and impact of thousands of nonprofits to work together more effectively in pursuit of shared goals.”
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Worth Quoting

- “We are thankful to Rep. Mace and McCollum for introducing the Nonprofit SEAT Act, which will greatly help nonprofit organizations across South Carolina and throughout the country work more cooperatively and efficiently to serve their communities. This SEAT at the table will ensure that the voices that nonprofits represent can be heard at the highest levels.”

- Madeleine McGee, President & CEO, **Together SC**, quoted in [McCollum, Mace Introduce Legislation to Strengthen Link Between Nonprofit Sector and Federal Government](#), news release, May 12, 2023.

- “The nonprofit sector operates in uniquely complex and highly regulatory environments that only people who have experience working in nonprofits really understand. We need that knowledge at decision-making tables, to ensure policies are effective, efficient, and ultimately benefit communities that nonprofits serve. We’re grateful to Minnesota’s own Rep. McCollum for continuing to be a champion for the nonprofit sector, and Rep. Mace and other elected leaders in demonstrating bipartisan support for nonprofits that work tirelessly to support communities especially during times of crisis.”

- Nonoko Sato, Executive Director, **Minnesota Council of Nonprofits**, quoted in the same [McCollum-Mace news release](#), May 12, 2023.

Worth Reading

- [The US has approved \\$42 billion in loan forgiveness for public service workers. Here’s what to know](#), Adriana Morga and Cora Lewis, *AP News*, May 10, 2023.
- [What We Learned Navigating New House Earmarks Rules](#), Geoffrey Paul and Steve Taylor, *The NonProfit Times*, May 5, 2023.
- [Group Tied to Influential Conservative Activist Spent \\$183 Million in a Year](#), Rebecca Davis O’Brien, *New York Times*, May 12, 2023, noting that it is “impossible to directly trace” where hundreds of millions of dollars went.

Tax Legislation in the States

Bills addressing a range of tax policies are still moving through the legislative process as most state legislatures wind down for the year.

- **Sales Taxes:** A new sales tax law in **Indiana** [removes the threshold](#) for nonprofit organizations to be exempt from collecting and remitting the tax. Instead, it will require nonprofits that conduct sales on more than 120 calendar days per year to collect and remit sales tax. **Minnesota**'s Governor is expected to sign legislation to [increase the sales tax](#) to fund a statewide rental voucher system and expand affordable housing options.
 - **Property Taxes:** At the local level in **Virginia**, a county board of supervisors is considering lifting its [moratorium on granting property tax exemptions](#) to charitable nonprofits. The Board has instructed staff to research and make recommendations for lifting the moratorium that has been in place since 2011. Virginia is unique in granting local officials the option of approving or rejecting property-tax exemption applications from charitable organizations.
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Revising Nonprofit Regulations in the States

States continue to update their nonprofit regulatory regimes, although the degree of relief varies by state. The **Illinois** Legislature has passed and sent to the Governor a bill to [raise the nonprofit audit threshold](#) from \$300,000 to \$500,000 in charitable contributions. In praising the bill's passage, **Forefront**, the state association of nonprofits in Illinois, stated, "Illinois has the most burdensome audit threshold requirement in the US. This bill will allow Illinois' smallest nonprofits, which are more likely to be led by and serve Persons of Color, to focus on fulfilling their missions instead of paperwork." Earlier this year, [Mississippi](#) and [New Mexico](#) raised their audit thresholds from \$500,000 to \$750,000 in total revenues.

Trend Spotting

Community Benefit of Hospitals Under Scrutiny

A segment of the charitable community that is frequently the subject of heightened scrutiny is nonprofit hospitals, whether because they receive large sums of state revenues for health care services, because they frequently own large tracts of tax-exempt land, because their size as major employers make them targets for increased attention, or because of some other reason. In 2023, the attention of policymakers has turned into new requirements.

- **Colorado:** Saying he wanted to hold nonprofit hospitals “accountable” for meeting local needs, Governor [Polis recently signed legislation](#) expanding the obligations of nonprofit hospitals to seek public input in developing and publicizing community benefit implementation plans. Reporting hospitals will now be required to invite the public to annual meetings and respond to recommendations, subject to weekly fines for failing to comply.
- **Montana:** Similarly, Governor Gianforte recently signed legislation that will require [nonprofit health care facilities](#) to annually provide a charity care report, a community benefit report for the previous year, and both a charity care plan and community benefit plan for the current year. It also mandates that nonprofit health care facilities have and make publicly available a charity care policy and community benefit policy.
- **North Carolina:** Pending legislation titled the [Preserving Competition in Health Care Act](#) would authorize the Attorney General to review and take action on proposed mergers and consolidations of hospitals and health systems, including nonprofits. Among other things, the Attorney General would be required to determine the extent to which resources will be committed to the nonprofit hospital or community benefit activities after the consummation of the transaction.

Worth Studying

On promoting democracy

- [Speaking Out to Strengthen the Guardrails of Democracy](#), Divided Community Project, Ohio State University, May 2023.
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Numbers in the News

70.5%

The percentage of nonprofit leaders who anticipate charitable donations will decrease or remain flat this year. This view from all 50 states is troubling news in light of the decline in giving recorded last year ([FEP](#)), increased costs due to inflation ([CPI](#)), and continuing high demand for nonprofit services in communities ([NFF](#)).

Source: Initial analysis of more than 1,600 responses to a nationwide survey of charitable nonprofits conducted in April 2023 by the networks of the National Council of Nonprofits, initially published via [LinkedIn](#) and [Twitter](#).

\$42 billion

The total in Public Service Loan Forgiveness (PSLF) approved for more than 615,000 governmental and charitable workers since October 2021.

Source: [U.S. Department of Education Announces \\$42 Billion in Approved Public Service Loan Forgiveness for More Than 615,000 Borrowers Since October 2021](#), U.S. Department of Education, May 8, 2023.

Nonprofit Events

- May 16, [Annual Caring Force State House Rally](#), Providers' Council (Massachusetts)
- May 17-19, [Washington State Nonprofit Conference](#), Nonprofit Association of Washington
- May 19, [State Legislative Briefing](#), Nonprofit Association of Oregon
- May 24, [Nonprofit Rally & Advocacy Day](#), CT Community Nonprofit Alliance
- May 26, [Public Policy Community of Practice](#), Delaware Alliance for Nonprofit Advancement
- Jun. 2, [Legislative Session Recap](#), Together SC
- Jun. 5-7, [2023 Leadership Summit](#), Wyoming Nonprofit Network
- Jun. 7-8, [Nonprofit Leadership Conference](#), North Dakota Association of Nonprofit Organizations

Issuing a Wake-Up Call

Nonprofit Nonpartisanship Under Attack

The assaults against the independence of charitable nonprofits, private foundations, and religious congregations launched a few years ago continue to this day. Orchestrated attacks have grown in scope, scale, and sophistication targeting actions in every branch of governments. As these challenges increase, it's important to review the protections charitable organizations currently enjoy, recount the more visible attacks since 2017, and expose the attempts by special interests to expand their power in ways that undercut nonprofit missions, lower the bar for fraudsters, and hide from the public the identify of those trying to influence open elections.

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