



GENERAL

Shutdown: Fallout for Nonprofits

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The recent federal government closure was the longest in U.S. history, causing incalculable pain, financial and otherwise, most directly to the workers and contractors who went without paychecks. There were serious ripple effects, too, through the economy as a whole. And the important work of government stopped for almost a month, creating backlogs for the foreseeable future which may never be fully remedied

The news media have documented much of this entirely unnecessary (and unproductive) fallout. From the standpoint of the 501(c)(3) world, though, there has been devastating damage that experts are only beginning to assess.

Huge Toll of Shutdown on Organizations

The new Congress acted to authorize back pay for the affected federal employees, but they will never be fully compensated for their additional losses including – for example – negative credit-rating effects, evictions, and delays of urgent medical treatment.

The employees of federal contractors have been left in an even more unfair and precarious situation; Congress has not yet voted to reimburse them for their lost wages or compensate them for any of the consequential damages from their furloughs.

And a fact often overlooked in media reports about “federal contractors” is that many **nonprofits are included in that category** – including organizations that stepped up to the plate during the shutdown to provide emergency assistance to community members. These groups have been left without assurances that missed grant or contract payments will ever be paid. These sudden, severe losses are on top of funding cutbacks and other actions by the current Administration in the past two years that had already created spikes in demand for their services.



Certain communities were affected more acutely than the nation as a whole. “The **biggest impact [was] likely felt** in the Washington, D.C. area.” But in other parts of the United States with “a large per-capita federal workforce or military,” like Alaska, charitable organizations had to scramble to provide widespread assistance, according to NCN’s Thompson. In large parts of the western U.S., especially where there are many Native American tribes, the loss of services by and through the Department of the Interior has negatively impacted areas that “**most politicians in D.C. don’t pay attention to.**”

One of the few “good news” aspects of the shutdown crisis was the highly visible and immediate response by nonprofits all around the nation to help their neighbors and friends with financial and other assistance. “Charities large and small **have diverted their attention** to address needs of furloughed employees and others affected by the shutdown.” Here in San Diego, for instance, alongside the many groups expanding food-assistance services to the human victims, the San Diego Humane Society sprang into action providing emergency food relief for **their pets.**

Another instance is The **National Parks Foundation** helping to clean up public recreational areas when federal services stopped. It’s a good move in some respects, according to David Thompson of the National Council on Nonprofits, but it “could be detrimental in the long run.” When nonprofits “step in to do what they do — solve problems,” governments “get **used to these volunteers doing the work.**” Nonprofits that “divert from their mission for government not doing its job” have been burned in the past; often they are never reimbursed.

Shutdown Set Back IRS Oversight Capabilities

For several years, the Internal Revenue Service has endured cutbacks, with losses of “**about \$715 million in funding and 22,000 full-time employees.**” The agency has also had an attrition problem; many long-time workers are reaching retirement, and it’s been difficult to replace them.

The Tax Exempt/Government Entity Division (TE/GE) has been particularly hard-hit for a variety of insupportable reasons pushed by certain legislators. This has caused ongoing problems and backlogs including the notoriously long time it used to take for approval of a tax exemption application. In 2014, the IRS tried to reverse this lag time by launching the ill-designed Form 1023-EZ. In the short term, this move cleared the backlog, but there are new headaches now as large numbers of ineligible groups have slipped through and achieved tax-exempt status.

Will the IRS ever catch up from almost four weeks of an absent workforce? It’s anybody’s guess. The shutdown has magnified the preexisting staffing shortfall and has likely created a new backlog that will be difficult to remedy.

There may also be a long-term effect on this agency’s workforce. In **Shutdown Pain May Make Working at IRS a Tough Sell**, the authors wonder whether the stoppage has set up “a serious question for IRS employees: is working there even worth it?” And will prospective employees consider it at all? They may be able to get a better salary in the private sector without any risk of work stoppages because of political stalemates.

The important role of the Internal Revenue Service in the proper oversight of the charitable community has been hurt severely over a period of years. This rash, pointless government action



has made matters much worse. “Given all the budget cuts we’ve had over the years, and the grievous harm that’s been inflicted upon employees during this shutdown, it could **take a generation to repair the harm that’s been done,**” according to University of Pittsburgh law professor Philip Hackney, a nonprofit expert who previously worked in the IRS Office of the Chief Counsel.

Conclusion

Perhaps the only silver lining to this miserable episode is the spike in the reputation of the federal worker, long-maligned (unfairly) as lazy or superfluous. Looking good, too, is the philanthropic community; already held in fairly high regard, our sector has emerged as more vital than ever for the nation in times of crisis and hardship.