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THIRD READING

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Bill No: AB 1318  
Author: Bonta (D), et al.  
Amended: 6/23/25 in Senate  
Vote: 27 - Urgency

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SENATE HUMAN SERVICES COMMITTEE: 4-0, 7/7/25  
AYES: Arreguín, Becker, Durazo, Limón  
NO VOTE RECORDED: Ochoa Bogh

ASSEMBLY FLOOR: 61-13, 5/27/25 - See last page for vote

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**SUBJECT:** Public social services: tax-exempt nonprofit organizations

**SOURCE:** California Association of Nonprofits

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**DIGEST:** This bill defines a “qualified nonprofit organization” to mean a nonprofit with either state tax-exempt status or federal 501(c)(3) status, for the purpose of allowing contracts or grants to be awarded for services to refugees and undocumented persons and the administration of the Rapid Response Program and the Enhanced Services for Asylees and Vulnerable Noncitizens (ESAVN) program. This bill also provides that notwithstanding any other law, and unless the context clearly requires otherwise, whenever any reference to Section 501(c)(3) of the Internal Revenue Code appears in any statute, regulation, or contract, or in any other code, with respect to determining eligibility for any state grant or service contract, or the disbursement of state or local funds, it shall also be deemed to refer to Section 23701d of the Revenue and Taxation Code.

**ANALYSIS:**

Existing Law:

- 1) Establishes the Nonprofit Corporation Law to provide for the governance of nonprofit corporations, including public benefit corporations, mutual benefit corporations, nonprofit religious corporations, and cooperative corporations. (Corporation Code 5000 § et seq.)

- 2) Provides that a nonprofit organization qualifies for tax exemption if it is exclusively organized and operated for purposes such as religious, charitable, scientific, educational, or the prevention of cruelty to children or animals. To qualify: no part of its earnings can benefit private individuals or shareholders; it cannot primarily engage in lobbying or influence legislation, except as specified; it cannot participate in political campaigns; its assets must be irrevocably dedicated to one or more of the exempt purposes listed, which means if the organization dissolves, its assets must go to another qualifying tax-exempt organization or a government entity for public use; and, the irrevocable dedication can be shown through the organization's founding documents or by operation of law. (Revenue and Taxation Code § 23701d(a); 18 California Code of Regulations § 143)
- 3) Defines, for the purposes of the administration of refugee social services and refugee cash assistance, "qualified nonprofit organization" means a nonprofit organization that is exempt from federal income taxation pursuant to federal law and that satisfies any additional eligibility criteria established by the California Department of Social Services (CDSS). (Welfare and Institution Code (WIC) § 13275(a))
- 4) Provides that corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to include legislation, and which does not participate in, or intervene in any political campaign on behalf of or in opposition to any candidate for public office. (26 United States Code (USC) § 501(c)(3))

This bill:

- 1) Provides that notwithstanding any other law, and unless the context clearly requires otherwise, whenever any reference to Section 501(c)(3) of the Internal Revenue Code appears in any statute, regulation, or contract, or in any other code, with respect to determining eligibility for any state grant or service contract, or the disbursement of state or local funds, it shall also be deemed to refer to Section 23701d of the Revenue and Taxation Code.
- 2) Expands what qualifies as a "qualified nonprofit organization" from one that qualifies as tax exempt under federal law to one that qualifies as tax exempt

under federal law or under state law for purposes of allowing contracts or grants to be awarded for services to refugees and undocumented persons and the administration of the Rapid Response Program and the Enhanced Services for Asylees and Vulnerable Noncitizens program.

## Comments

*According to the author.* “As someone who spent over a decade working in the nonprofit sector, I have seen firsthand how vital these organizations are to the health, safety, and dignity of our communities. I often refer to the nonprofit sector as the third arm of government, because when public systems fall short, it is nonprofits that step in filling gaps, reaching marginalized populations, and delivering essential services where government and for-profit entities cannot. Unfortunately, recent efforts have targeted the tax-exempt status of nonprofits that do not align with the current goals of the federal administration. AB 1318 ensures that California can continue to partner with nonprofits that meet our state’s standards, regardless of federal political shifts, by allowing organizations with state tax-exempt status to continue to receive funding through our programs. This bill protects the integrity of our service network and stands with the organizations that have long stood with our most vulnerable populations.”

*Nonprofits vs Tax-Exempt.* In California there are three types of nonprofit corporations: public benefit, mutual benefit, and religious. Nonprofits are not necessarily tax-exempt, regardless of their federal tax status. All nonprofits must apply to the Franchise Tax Board for tax-exempt status, or provide the Franchise Tax Board with a copy of the Internal Revenue Service’s determination that the organization is tax-exempt under the Internal Revenue Code. The Franchise Tax Board then notifies the organization of its determination, or its acknowledgement of the Internal Revenue Service determination, either of which entitles the organization to an exemption from the Corporation Tax. A nonprofit that does not obtain approval from Franchise Tax Board for their tax-exempt application is subject to the Corporation Tax. Individuals will often form nonprofits, without applying for tax-exempt status. Under federal law, a 501(c)(3) organization is a nonprofit that is also exempt from federal income tax under the Internal Revenue Code. Not all nonprofits fall under 501(c)(3). The California equivalent of a 501(c)(3) is Revenue and Taxation Code 23701d. The requirements to be tax-exempt under federal and state law are not identical. This bill, by adding language that says “when Section 501(c)(3) of the Internal Revenue Code appears in any statute, regulation, or contract, or in any other code, with respect to determining eligibility for any state grant or service contract, or the disbursement of state or local funds, it shall also be deemed to refer to Section 23701d of the Revenue and

Taxation Code,” allows a nonprofit to continue to qualify for a state grant or service contract, or the disbursement of state or local funds, even if they no longer qualify as tax exempt under federal law so long as they qualify as tax exempt under state law.

*Revocation of Federal Tax Exempt Status.* The current federal administration has made various announcements suggesting the possibility of revoking 501(c)(3) tax-exempt status for organizations, seemingly focused only on organizations that disagree with the administration. This had led to fear and anxiety through large portions of the nonprofit sector. Federal tax exemption cannot be revoked through executive action, and it is a crime for the president or any top administration officials to ask the IRS to act against specific taxpayers. The IRS procedures to revoke federal tax-exempt status requires individual case-by-case IRS audits of each organization. The process allows the entity to defend itself and multiple ways to appeal, but this process can take years. This bill would protect nonprofits by allowing them to qualify as tax exempt under federal or state law for purposes of various contracts or grants with the state.

### **Related/Prior Legislation:**

AB 2218 (Santiago, 2024) would have extended eligibility for the ESAVN program’s awards and contracts to nonprofit organizations with one year of experience providing case management services and linguistically and culturally appropriate services. AB 2218 was held in the Assembly Appropriations Committee.

SB 85 (Weiner, 2024) would have allowed state funds, if appropriated, to be used in addition to federal funds for the extension of refugee social services up to 360 days. Would have expanded the ESAVN program from 90 days up to 180 days, with additional opportunities for extensions up to 360 days of case management services. SB 85 was vetoed by Governor Newsom.

**FISCAL EFFECT:** Appropriation: No    Fiscal Com.: Yes    Local: No

Senate Rule 28.8

**SUPPORT:** (Verified 8/18/25)

California Association of Nonprofits (Source)  
350 Bay Area Action  
7th Generation Advisors  
Aacsa

Active San Gabriel Valley  
All for Kids  
Aresis Ensemble (City Garage Theatre)  
Asian Law Caucus  
Asian Pacific Environmental Network  
Bay Area Climbers Coalition  
CA Healthy Nail Salon Collaborative  
California Alliance of Child and Family Services  
California Behavioral Health Association  
California Calls  
California Environmental Justice Alliance Action  
California Immigrant Policy Center  
California Interfaith Power & Light  
California Latinas for Reproductive Justice  
California Mobility Fund  
California Native Plant Society  
California Nurses Association  
California Partnership to End Domestic Violence  
California State PTA  
Californians for Pesticide Reform  
Calpride  
Caulder Lamm Alliance for Children, INC.  
Center for Community Action and Environmental Justice  
Center for Empowering Refugees and Immigrants  
Center on Race, Poverty & the Environment  
Central Valley Air Quality Coalition  
Ceres Community Project  
Charitable Ventures  
Chrysalis  
City Heights Community Development Corporation  
City of Alameda  
Coalition to Abolish Slavery and Trafficking  
Communities for a Better Environment  
Community Alliance With Family Farmers  
Community Bridges  
Crisis Support Services of Alameda County  
East Yard Communities for Environmental Justice  
Empower Yolo  
Equality California  
Farm2people

Firm - Fresno Immigrant and Refugee Ministries  
Focused on Growth Academy  
Food Empowerment Project  
Foodwise  
Fossil Free California  
Fresh Approach  
Global Refugee Awareness Healing Center  
Guadalupe-nipomo Dunes Center  
Guild for Psychological Studies  
Harc, INC.  
Haven (Healthy Alternatives to a Violent Environment)  
Healing and Justice Center  
Health Care Integrated Services  
Hispanic Foundation of Silicon Valley  
Hmong Culture Camp  
Hss  
Immigrant Defenders Law Center  
Immigrant Legal Resource Center  
Khmer Girls in Action  
Kids in Need of Defense  
Kitchen Table Advisors  
Land Together  
Latino Coalition for a Healthy California  
Legal Aid Association of California  
Little Manila Rising  
Los Angeles Neighborhood Initiative  
Lumina Alliance  
Making Hope Happen Foundation  
Malo Motivating Action Leadership Opportunity  
Media Alliance  
Microenterprise Collaborative of Inland Southern California  
Mid-city Can  
Monterey Bay Aquarium  
Move Santa Barbara County  
Occidental Arts and Ecology Center  
Orcutt Area Seniors in Service, INC.  
Our Time to ACT  
Oxnard Performing Arts Center Corporation  
Pasadena Village  
Pathpoint

Pesticide Action and Agroecology Network  
Pop Culture Hero Coalition  
Public Health Advocates  
Rainbow Spaces  
Reach  
Red Rabbit Advocacy  
Reinvent South Stockton Coalition  
Restore Hetch Hetchy  
Rising Sun Center for Opportunity  
Roots of Change  
S & L Foster Family Agency  
San Diego 350  
San Diego Food System Alliance  
San Diego Lgbt Community Center  
San Diego Organizing Project  
Santa Cruz Climate Action Network  
Say San Diego  
SEE (Social Eco Education)  
Services, Immigrant Rights and Education Network  
Shelter From the Storm, INC.  
Sierra Nevada Alliance  
Silicon Valley Council of Nonprofits  
Southeast Asia Resource Action Center  
Stewardship Action Foundation  
Sustainable Claremont  
Ten Strands  
The Aja Project  
The Joslyn Center  
The Nonprofit Partnership  
The Stephan Center  
The Unity Council  
The Urban Collaborative Project  
Tracy Community Connections Center  
Veggielution  
Ventures  
Viet Voices  
Vietnamese American Roundtable  
Vision Y Compromiso  
Walnut Avenue Family & Women's Center  
Wild Farm Alliance

Women Shelter of Long Beach  
Youth United for Community Action  
Youth Will

**OPPOSITION:** (Verified 8/18/25)

None received

ASSEMBLY FLOOR: 61-13, 5/27/25

AYES: Addis, Aguiar-Curry, Ahrens, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Dixon, Elhawary, Flora, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Ward, Wicks, Wilson, Zbur, Rivas

NOES: Alanis, Davies, DeMaio, Gallagher, Hadwick, Hoover, Lackey, Macedo, Patterson, Sanchez, Ta, Tangipa, Wallis

NO VOTE RECORDED: Castillo, Chen, Ellis, Jeff Gonzalez, Nguyen

Prepared by: Heather Hopkins / HUMAN S. / (916) 651-1524  
8/20/25 23:35:43

\*\*\*\* END \*\*\*\*