

Date of Hearing: May 13, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
AB 2084 (Bauer-Kahan) – As Amended April 20, 2026

Policy Committee: Revenue and Taxation Vote: 5 - 2

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill authorizes the Franchise Tax Board (FTB) to retain an organization's tax-exempt status for state income tax purposes if the FTB determines the federal suspension or revocation of such status occurred for certain reasons unrelated to federal income tax law.

Specifically, this bill authorizes the FTB, in its discretion, to maintain an organization's tax-exempt status pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC) for state income tax purposes, instead of suspending or revoking the status upon such notification by the organization, provided that federal suspension or revocation is not related to: (1) fraud or intentional misrepresentation, (2) misuse or diversion of organized funds, (3) failure to file required returns or reports, or (4) other breaches of organizational reporting or governance requirements. This bill authorizes the FTB to prescribe regulations to implement such an evaluation process.

FISCAL EFFECT:

- 1) General Fund (GF) revenue loss of an unknown amount by allowing certain entities to remain exempt from state taxation that would otherwise become subject to tax. FTB estimates that for every \$1 million of income that would be subject to state taxation absent this bill, the revenue increase would be approximately \$90,000. Thus, this bill would result in foregone revenue loss of \$90,000 for every \$1 million that would remain exempt from state taxation pursuant to this bill.

By reducing GF revenue, this bill also likely decreases Proposition 98 GF spending by approximately 40% of the revenue loss (the exact amount depends on the operative test of the annual Proposition 98 guarantee).

- 2) Costs of an unknown amount to the FTB to adopt regulations to modify the FTB's existing processes regarding the suspension or revocation of a tax-exempt organization's status and implement a new evaluation process.

The Legislative Analyst's Office recently warned of GF structural deficits of around \$35 billion per year in the 2027-28 fiscal year and ongoing.

COMMENTS:

- 1) **Purpose.** According to the author:

Recent federal rhetoric and actions have raised serious concerns about the potential for abrupt challenges to nonprofit tax-exempt status when organizations are perceived by the federal administration to be acting outside their exempt purposes rather than genuine compliance issues.

AB 2084 authorizes the [FTB] to preserve a nonprofit's state income-tax exempt status when a federal revocation occurs for reasons unrelated to legal eligibility for revocation. AB 2084 ensures that legitimate organizations are not immediately stripped of their status due to administrative issues or evolving federal interpretations.

This bill is sponsored by the California Association of Nonprofits and supported by other individual nonprofit organizations and the California Society of Enrolled Agents.

- 2) **Tax-exempt Status.** The vast majority of nonprofit organizations are tax-exempt entities pursuant to IRC Section 501(c)(3), which requires the entity to be organized and operated exclusively for religious, charitable, scientific, literary, educational, and other specified public purposes. Such an organization must apply to the Internal Revenue Service (IRS) for tax-exempt status by completing a form and providing copies of organizing documents and bylaws to demonstrate compliance with certain prohibitions, such as participating in political campaigns as a substantial part of the organization's activities. The IRS automatically revokes an organization's tax-exempt status if the organization fails to file the annual information return for three consecutive years and may also initiate an audit to question the activities of a tax-exempt organization.

Existing state law provides that if the IRS suspends or revokes the tax-exempt status of a California 501(c)(3) organization with state tax-exempt status based on such federal determination, the FTB must also suspend or revoke the organization's state-level, tax-exempt status. This bill does not repeal this requirement of the FTB, but allows the FTB to use its discretion to maintain a 501(c)(3) organization's tax-exempt status if the suspension or revocation is not related to fraud, misuse of funds, failure to file required reports, or other breaches of governance requirements. This bill authorizes the FTB to adopt regulations to implement a process to determine whether such factors resulted in the organization's suspension or revocation.

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