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# SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair  
2025 - 2026 Regular

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<b>Bill No:</b>	AB 2084	<b>Hearing Date:</b>	6/24/26
<b>Author:</b>	Bauer-Kahan	<b>Tax Levy:</b>	Yes
<b>Version:</b>	4/20/26 Amended	<b>Fiscal:</b>	Yes
<b>Consultant:</b>	Summers		

## ***CORPORATION TAX LAW: TAX-EXEMPT ORGANIZATIONS: REVOCATION OF TAX-EXEMPT STATUS***

*Provides the Franchise Tax Board with the discretion to maintain the tax-exempt status of a 501(c)(3) nonprofit whose federal tax-exempt status was revoked.*

### **Background**

California nonprofit corporations organized for religious, charitable, social, educational, recreational, or similar purposes are formed pursuant to the Nonprofit Corporation Law. In California, a nonprofit corporation is not necessarily tax-exempt, regardless of its federal tax status. To obtain California tax-exempt status, a nonprofit organization generally must submit a completed application form to the Franchise Tax Board (FTB) and receive a letter from the FTB establishing that the organization is exempt from state income tax. The exemption application must include the organization's Articles of Incorporation, bylaws, and financial statements.

Beginning in 2008, organizations that received a federal determination of tax-exempt status under Internal Revenue Code (IRC) section 501(c)(3) were authorized to establish their state tax-exempt status simply by submitting to the FTB a copy of their federal tax-exempt status determination (AB 897, Houston, 2007). Organizations with a tax-exempt status pursuant to IRC Section 501(c)(3) are organizations that operate exclusively for religious, charitable, scientific, or other specified purposes. The Legislature extended this streamlined state process in AB 1173 (Bocanegra, 2013) and AB 934 (Bates, 2020) to similar tax-exempt IRC 501(c) groups, specifically those exempt pursuant to:

- 501(c)(4) – Civic leagues, social welfare organizations (including certain war veterans' organizations), or local associations of employees;
- 501(c)(5) – Labor, agricultural, or horticultural organizations;
- 501(c)(6) – Business leagues, chambers of commerce, etc.;
- 501(c)(7) – Social Clubs; and
- 501(c)(19) – Veteran Organizations.

Additionally, AB 1173 requires an exempt organization to notify FTB of a revocation or suspension of tax-exempt status for federal income tax purposes, and upon receipt thereof, directs the FTB to rescind the organization's tax-exempt status for state tax purposes.

**Federal targeting of 501(c)(3) organizations.** On January 21, 2025, President Trump's Executive Order 14173, "Ending Illegal Discrimination and Restoring Merit-Based

Opportunity,” directed the federal government to terminate Diversity, Equity, and Inclusion (DEI)-related policies and framed certain DEI practices as unlawful discrimination.<sup>1</sup> The order also revoked Executive Order 11246, the long-standing federal contractor affirmative-action framework signed by President Lyndon B. Johnson on September 24, 1965, which remained continuously in effect under every subsequent presidential administration. The White House’s January 22, 2025, fact sheet described Executive Order 14173 as ending “illegal DEI” and protecting “civil rights and merit-based opportunity.”<sup>2</sup>

In April 2025, the Washington Post reported that Treasury officials delivered a request to the Internal Revenue Service (IRS) to revoke Harvard University’s tax-exempt status after Harvard resisted federal demands tied to governance, admissions, hiring, DEI, and campus antisemitism.<sup>3</sup> Harvard described the tax-exemption threat as part of a broader federal campaign against the university, as the government had already frozen \$2.2 billion in funding from the school and was considering freezing another \$1 billion.<sup>4</sup>

In July of 2025, the US Department of Justice (DOJ) issued guidance for recipients of federal funding, stating that federally funded entities must ensure their programs comply with federal antidiscrimination law regardless of whether programs are labeled DEI. That guidance is directly relevant to nonprofits because many 501(c)(3)s receive federal grants, contracts, or pass-through funds.<sup>5</sup>

Additionally, the DOJ also created a Civil Rights Fraud Initiative in May 2025. The Department said institutions that take federal money while allowing antisemitism or promoting “divisive DEI policies” risk access to federal funds.<sup>6</sup> Reuters reported that the challenged policy could affect up to 640,000 contracts and subcontracts with over 34,000 unique contractors nationwide.<sup>7</sup> 19 states and Washington, D.C. have sued the Trump Administration over anti-DEI terms in federal contracts.

In April 2026, House Democrats announced an inquiry to the IRS in a letter, stating in relevant part:

*We write today because we are gravely concerned that the Administration has weaponized the Internal Revenue Service (IRS) by targeting tax-exempt organizations and their donors based on their political beliefs and constitutionally protected advocacy. We have said time and time again that the IRS must do its work impartially and without political bias. Taxpayers should not be targeted based on their political beliefs. The President’s use of the IRS to target any particular taxpayer is both unlawful and unacceptable. Therefore, we are deeply troubled that not only has the IRS compiled a list of Democratic*

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<sup>1</sup> <https://www.whitehouse.gov/presidential-actions/2025/01/ending-illegal-discrimination-and-restoring-merit-based-opportunity/>

<sup>2</sup> <https://www.whitehouse.gov/fact-sheets/2025/01/fact-sheet-president-donald-j-trump-protects-civil-rights-and-merit-based-opportunity-by-ending-illegal-dei/>

<sup>3</sup> <https://www.washingtonpost.com/education/2025/04/16/harvard-tax-trump-irs-law/>

<sup>4</sup> <https://www.harvard.edu/president/news/2025/upholding-our-values-defending-our-university/>

<sup>5</sup> <https://www.justice.gov/opa/pr/justice-department-releases-guidance-recipients-federal-funding-regarding-unlawful>

<sup>6</sup> <https://www.justice.gov/opa/pr/justice-department-establishes-civil-rights-fraud-initiative>

<sup>7</sup> <https://www.reuters.com/legal/government/states-sue-trump-administration-over-anti-dei-terms-federal-contracts-2026-06-10/>

*donors and “left-leaning” nonprofit organizations, but that the Administration is moving to label these groups as domestic terrorists.*

For California nonprofits, the immediate risk from federal 501(c)(3) targeting is not just federal income tax treatment. California nonprofits are at risk in several distinct ways because federal 501(c)(3) status is often used when determining state tax treatment, grant eligibility, and contracting opportunities. It also carries larger practical consequences, such as donor deductibility concerns, reputational harm, Attorney General Registry compliance, and possibly property tax exemption review.

**AB 1318.** In 2025, the Legislature enacted AB 1318 (Bonta) to address the risks of federal targeting of 501(c)(3)s by allowing nonprofit organizations to qualify for public funding if they hold either federal 501(c)(3) tax-exempt status or state tax-exempt status. By recognizing state-level tax-exempt status, the bill endeavored to ensure that nonprofits operating lawfully in California are not disqualified from funding due to federal political actions. However, the modernized streamlined process enacted by AB 1173 requires the FTB to revoke that organization’s state exemption if the IRS revokes an organization’s 501(c)(3) tax-exempt status.

The California Association of Nonprofits wants to prevent disruptions to California nonprofit organizations by granting the FTB discretion to review and preserve the state tax-exempt status of nonprofits whose federal tax-exempt status have been revoked.

### **Proposed Law**

Assembly Bill 2084 provides that FTB may, in its discretion, maintain a 501(c)(3)’s state income tax exemption if the organization’s federal tax exemption suspension or revocation was not related:

- Fraud or intentional misrepresentation;
- Misuse or diversion of organizational funds;
- Failure to file required returns or reports; or
- Other breaches of organizational reporting or governance requirements.

The bill also grants FTB the authority to prescribe regulations or procedures necessary to implement this discretionary authority, and to establish the process for the 501(c)(3) organization to comply.

### **State Revenue Impact**

According to the FTB, AB 2084, since it is difficult to predict the frequency of and value of the state tax exemptions that would be revoked as a result of the federal determination, the revenue impact is unknown. However, it is estimated that for every \$1 million of income that will no longer be exempted from state taxation, the additional revenue is estimated to be \$90,000.

### **Comments**

1. Purpose of the bill. According to the author, “Nonprofit organizations play a vital role in serving communities and advancing charitable, educational, and public-interest missions. 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 California Franchise Tax Board 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. AB 2084 promotes fairness and stability for nonprofits while preserving the state's ability to enforce compliance with tax-exempt requirements."

2. Equity. Since AB 897 became effective in 2008, California has allowed nonprofits to establish their state tax-exempt status based on their existing federal 501(c)(3) determination. This streamlined process promoted administrative efficiency for both taxpayers and the FTB. However, the modernized streamlined process enacted by AB 1173 requires the FTB to revoke that organization's state exemption if the IRS revokes an organization's 501(c)(3) tax-exempt status. At the federal level, tax-exempt status for nonprofit organizations has been a focus of recent attention, including targeting organizations' 501(c)(3) tax-exempt status due to disagreements over policies, political activity, or DEI initiatives. This can result in immediate tax liabilities, loss of grant eligibility, and interference with essential community services provided by California nonprofits. AB 2084 helps prevent disruptions to California nonprofit organizations targeted for political reasons related to their mission-driven activities advancing important state policies that improve the lives of persons in marginalized communities.

3. IRC 7217. In addition to protections for nonprofits enacted by AB 2158, there is also federal statutory protection against direct political interference of IRS enforcement. IRC Section 7217 makes it unlawful for the President, Vice President, Executive Office staff, and certain senior executive officials to request that the IRS conduct or terminate an audit or investigation of a particular taxpayer. IRS employees who receive such a prohibited request must report it to the Treasury Inspector General for Tax Administration, and willful violations carry criminal penalties. Further, as a matter of procedure, revocation of a taxpayer's tax-exempt status is not supposed to occur by public statement or executive preference alone. IRS guidance says an organization may appeal a proposed adverse determination, including a proposed determination that it no longer qualifies for tax-exempt status after audit.<sup>8</sup> The IRS also states that nonprofit audit decisions may be appealed to the Independent Office of Appeals, which is separate from the IRS examination function.<sup>9</sup>

### Assembly Actions

Assembly Revenue & Taxation Committee:	5-2
Assembly Appropriations Committee:	11-3
Assembly Floor:	56-16

### Support and Opposition (6/18/2026)

Support: California Association of Nonprofits (Sponsor)  
 California Primary Care Association Advocates  
 California Society of Enrolled Agents  
 Planned Parenthood Affiliates of California

<sup>8</sup> <https://www.irs.gov/pub/irs-pdf/p892.pdf>

<sup>9</sup> <https://www.irs.gov/charities-non-profits/charity-and-nonprofit-audits-appeal-rights-and-procedures>

Opposition: None received.

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