SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2084 (Bauer-Kahan) - Corporation Tax Law: tax-exempt organizations: revocation of tax-exempt status

Version: April 20, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: REV. & TAX. 4 - 0
Mandate: No
Consultant: Robert Ingenito

Bill Summary: AB 2084 would provide the Franchise Tax Board (FTB) with the discretion to maintain the tax-exempt status of a 501(c)(3) nonprofit whose federal tax-exempt status was revoked.

Fiscal Impact: FTB indicates that this bill would result in an unknown General Fund revenue loss by allowing certain entities to retain their exemption from state taxation that they would otherwise lose and become subject to tax. For every $1 million of income that remains exempt under the bill, FTB estimates that the State would forgo $90,000 in General Fund revenue. FTB's implementation costs would be minor and absorbable.

Background: California nonprofit corporations organized for religious, charitable, educational, and other specified purposes are formed under the Nonprofit Corporation Law but are not automatically exempt from state income tax. Generally, organizations must apply to FTB and demonstrate they qualify for tax-exempt status. Since 2008, organizations recognized by the Internal Revenue Service (IRS) as tax-exempt under Internal Revenue Code (IRC) Section 501(c)(3), and later certain other IRC Section 501(c) organizations, have been permitted to obtain California tax-exempt status through a streamlined process by submitting their federal determination letter. Existing law also requires the FTB to revoke or suspend an organization's state tax-exempt status if its corresponding federal tax-exempt status is revoked or suspended.

Since 2025, the federal government has taken a number of actions affecting diversity, equity, and inclusion (DEI) policies and has increased scrutiny of certain nonprofit organizations, including threats to revoke the federal tax-exempt status of some organizations and expanded enforcement efforts involving recipients of federal funding. These actions have raised the possibility that organizations could lose state tax benefits and eligibility for certain state programs as a consequence of federal actions unrelated to financial misconduct or governance failures.

Last year, the Legislature enacted AB 1318 (Bonta, 2025) to allow nonprofit organizations to qualify for specified state funding based on either federal or state tax-exempt status, reducing reliance on federal determinations for funding eligibility. However, because existing law requires FTB to automatically revoke state tax-exempt status following an IRS revocation, organizations remain vulnerable to losing their California tax exemption based solely on federal action.

Proposed Law: This bill would do the following:

- Provide 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 to (1) fraud or intentional misrepresentation, (2) misuse or diversion of organizational funds, (3) failure to file required returns or reports, or (4) other breaches of organizational reporting or governance requirements.

- Grant 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.

Staff Comments: The magnitude of the bill's revenue impact would depend on the number of nonprofit organizations that would lose their federal tax-exempt status and the amount of income that would otherwise become subject to state taxation. Because both factors are unknown, the revenue impact cannot be estimated. However, as noted above, FTB estimates that every $1 million of income that remains exempt from state taxation would reduce General Fund revenue by approximately $90,000.

-- END --