Office of Senate Floor Analyses
(916) 651-4171

THIRD READING

Bill No: AB 2084
Author: Bauer-Kahan (D)
Amended: 4/20/26 in Assembly
Vote: 21

SENATE REVENUE AND TAXATION COMMITTEE: 4-0, 6/24/26
AYES: McNerney, Ashby, Becker, Grayson
NO VOTE RECORDED: Alvarado-Gil

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/13/26
AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto, Dahle

ASSEMBLY FLOOR: 56-16, 5/21/26 - See last page for vote

SUBJECT: Corporation Tax Law: tax-exempt organizations: revocation of tax-exempt status

SOURCE: California Association of Nonprofits

DIGEST: This bill provides 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(FTB) with the discretion to maintain the tax-exempt status of a 501(c)(3) nonprofit whose federal tax-exempt status was revoked.

ANALYSIS:

Existing federal law:

1) Allows nonprofit organizations to obtain tax-exempt status for federal income tax purposes, pursuant to IRC Section 501(c).

Existing state law:

2) Allows California nonprofit corporations organized for religious, charitable, social, educational, recreational, or similar purposes to be formed pursuant to the Nonprofit Corporation Law.

3) Allows nonprofit organizations to apply for and obtain California tax-exempt status if they submit a complete application, in the form and manner prescribed by the FTB, and receive a letter from the FTB establishing the organization as tax-exempt for state income tax purposes.

4) Requires that the exemption application include the organization's Articles of Incorporation, bylaws, and financial statements.

5) Authorizes the following types of nonprofit organizations that received a federal determination of tax-exempt status under Internal Revenue Code (IRC) section 501(c) to establish their state tax-exempt status by submitting to the FTB a copy of their federal tax-exempt status determination:

   a) IRC section 501(c)(3) – Organizations that operate exclusively for religious, charitable, scientific, or other specified purposes.

   b) IRC section 501(c)(4) – Civic leagues, social welfare organizations (including certain war veterans' organizations), or local associations of employees.

   c) IRC section 501(c)(5) – Labor, agricultural, or horticultural organizations.

   d) IRC section 501(c)(6) – Business leagues, chambers of commerce, etc.

   e) IRC section 501(c)(7) – Social Clubs.

   f) IRC section 501(c)(19) – Veteran Organizations.

6) Requires a state tax-exempt organization to notify FTB of a revocation or suspension of its federal tax-exempt status, and upon receipt thereof, directs the FTB to rescind the organization's tax-exempt status for state tax purposes.

This bill:

1) 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 to:

   a) Fraud or intentional misrepresentation;

   b) Misuse or diversion of organizational funds;

   c) Failure to file required returns or reports; or

   d) Other breaches of organizational reporting or governance requirements.

2) Grants FTB the authority to prescribe regulations or procedures necessary to implement this discretionary authority, and for the nonprofit organization to comply.

Background

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. 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."

In their April 16, 2025 article titled "*Can Trump revoke Harvard's tax-exempt status? What to know about the law,*" 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. 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.

On July 29, 2025, the US Department of Justice (DOJ) issued a memorandum titled "Guidance for Recipients of Federal Funding Regarding Unlawful Discrimination," stating that federally funded entities must ensure their programs comply with federal antidiscrimination law, regardless of whether the 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.

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.[1] Reuters reported that the challenged policy could affect up to 640,000 contracts and subcontracts with over 34,000 unique contractors nationwide.[2] 19 states and Washington, D.C. have sued the Trump Administration over anti-DEI terms in federal contracts.

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

According to the Senate Appropriations Committee, "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."

SUPPORT: (Verified 8/14/26)

California Association of Nonprofits (source)
California Primary Care Association Advocates
California Society of Enrolled Agents
Planned Parenthood Affiliates of California
Valley Industry and Commerce Association

OPPOSITION: (Verified 8/14/26)

None received

ARGUMENTS IN SUPPORT:

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.

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[1] https://www.justice.gov/opa/pr/justice-department-establishes-civil-rights-fraud-initiative
[2] https://www.reuters.com/legal/government/states-sue-trump-administration-over-anti-dei-terms-federal-contracts-2026-06-10/

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."

ASSEMBLY FLOOR: 56-16, 5/21/26
AYES: Addis, Aguiar-Curry, Ahrens, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Elhawary, Fong, Gabriel, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Ward, Wicks, Wilson, Zbur, Rivas
NOES: Castillo, Davies, DeMaio, Dixon, Ellis, Flora, Gallagher, Jeff Gonzalez, Hadwick, Johnson, Macedo, Patterson, Sanchez, Ta, Tangipa, Wallis
NO VOTE RECORDED: Alanis, Arambula, Chen, Garcia, Hoover, Lackey, Ramos, Celeste Rodriguez

Prepared by: Haley Summers / REV. & TAX. / (916) 651-4117
8/15/26 9:52:52

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