



Bill Analysis

Author: Bauer-Kahan

Sponsor:

Bill Number: AB 2084

Related Bills: See Legislative
History

Introduced: February 18, 2026

SUBJECT

Federal Tax Exemption Revocation

SUMMARY

This bill would, under the Corporate Tax Law (CTL), upon an organization's notification of a federal revocation, require the Franchise Tax Board (FTB) to notify the organization, in writing, of the FTB's intent to revoke their state exemption status while allowing a 90-day cure period operative for taxable years beginning on or after January 1, 2027.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to prevent disruptions in services provided by tax-exempt organizations.

ANALYSIS

When an organization has used the federal determination letter to qualify for state exempt status and the FTB receives notification from an organization that its federal exemption status has been revoked, this bill would require the FTB to notify the organization, in writing, of the intent to revoke the organization's state exemption status.

Once the organization receives the FTB's notice of intent to revoke, the organization would have 90 days to cure its status by submitting either of the following:

- Evidence that the federal revocation was issued in error or that their federal status has been retroactively reinstated.

- An application for state exemption independent of the federal exemption status.

If an organization submits either the required documentation or the application, then the organization's state exemption status would remain active and in good standing throughout the duration of the FTB's review process until a final determination is made.

If an organization fails to submit either the required information or application within the 90-day cure period or the FTB issues a final denial determination based on the information submitted, then the FTB will revoke the organization's state exemption status. The revocation would be effective as of the date of the federal revocation except to the extent the FTB determines the organization met state requirements for a portion of that period.

Effective/Operative Date

This bill would be effective January 1, 2027, and operative for taxable years beginning on or after January 1, 2027.

Federal/State Law

The Internal Revenue Code (IRC) provides rules for organizations conducting specified activities to be exempt from federal income tax. Upon application, the Internal Revenue Service (IRS) reviews and can grant organizations a tax-exempt status. A tax-exempt organization can be a trust, an unincorporated association, or a nonprofit corporation.

California state law treats organizations that are federally tax-exempt under IRC section 501(c)(3), 501(c)(4), 501(c)(5), 501(c)(6), 501(c)(7), or 501(c)(19) as tax-exempt under state income tax law if the organization submits to the FTB form FTB 3500A, Submission of Exemption Request, with a copy of its federal tax-exempt determination letter. California can also grant tax-exempt status to an organization if the organization is operated for one or more exempt purposes as listed in the CTL. For the state exemption, the organization must submit a completed form FTB 3500, Exemption Application, with all required documentation for the FTB to grant the state tax-exempt status.

Federal and state law provides for the suspension of a tax-exempt status for any of the following reasonings:

- Supporting or engaging in illegal international terrorist activity
- Endorsing, campaigning for, or opposing any candidates for public office
- Excessive lobbying in attempts to influence legislation
- Operating for non-exempt purposes and allowing the organization's income or assets to benefit any private shareholder or individual

- Earning excess unrelated business income from a trade or business that is not substantially related to the organization's exempt purpose
- Automatic revocation for failure to comply with annual reporting obligations

Current state law prohibits any organization formed as a California corporation or qualified to do business in California with the California Secretary of State (SOS) that is "suspended" or "forfeited" from establishing its exemption from state income taxes. State law provides that the organization will not receive an acknowledgement from the FTB of an organization's exemption until that corporation is in good standing, i.e., listed by the SOS and the FTB as an "active" corporation.

Implementation Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

For consistent administration and coordination with other statutory deadlines, it is recommended that the 90-day cure period begins on the date the FTB mails the notices of intent to revoke, rather than the date the notice is received by the organization.

Technical Considerations

For consistency of terminology, the following changes are recommended:

- In Section 23701(b)(3)(B), replace the phrase "shall have 90 days to cure by submitting" with "shall, no later than 90 days from the date of the notice, submit".
- In Section 23701(b)(3)(A) and (B), replace the terms "the board" with "the Franchise Tax Board".
- In Section 23701(b)(3)(B)(ii), replace the phrase "throughout the duration of the board's review process until a final determination by the board on the material submitted pursuant to clause (i)." with "throughout the duration of the Franchise Tax Board's review until a final determination by the Franchise Tax Board, based on the completed application for exemption submitted pursuant to clause (i), is completed."
- In Section 23701(b)(3)(B)(iii), replace the phrase "If the organization fails to take action under clause (i) within the 90-day period to cure" with "If the organization fails to take action under clause (i) within the 90-day period from the date of the notice".

Policy Considerations

This bill would permit an organization to continue operating and remain in good standing in California during the FTB's review period until a final determination is made. However, the bill does not address key operational and compliance implications that may arise if the organization is ultimately denied state exemption status retroactive to the federal revocation date. Specifically, it is unclear how the organization should treat contributions received during the review period, or what legal or administrative status the organization would hold while its exemption is under review. To provide clarity, the author may wish to amend the bill to specify the treatment of contributions received during that time and other potential administrative concerns.

LEGISLATIVE HISTORY

SB 934 (Bates, Chapter 59, Statutes of 2020), under the Revenue and Taxation Code, eliminated the \$25 filing fee as of January 1, 2021, for organizations applying for tax-exempt status.

SB 834 (Wiener, et al., 2021/2022) would have, under the CTL, required the Attorney General to notify the FTB of any finding that a tax-exempt organization was actively engaged in, or incited the active engagement in, illegal activities, as defined. The bill would have restated the FTB's existing authority to revoke the tax-exempt status of an organization found to be in violation. SB 834 was vetoed by the governor whose veto message stated in part,

"This bill allows the FTB to revoke the tax-exempt status of a nonprofit, charitable organization if the California Attorney General determines the organization has engaged in treason, insurrection, conspiracy, government overthrow, or mutiny by members of the military. Without question, extremist groups that participate in anti-government acts such as those that took place during the insurrection on January 6, 2021, should be renounced and investigated for their participation. However, these are issues that should be evaluated through the judicial system with due process and a right to a hearing."

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT*Revenue Estimate*

To determine the magnitude of the potential revenue impact of this bill, the following must be known: the number of nonprofit organizations whose state exemption is contingent upon their federal exemption that would lose their federal exemption status, and the number of organizations that would not cure their status for state income tax purposes during the 90-days cure period. 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.

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov