



Bill Analysis

Author: Bauer-Kahan

Sponsor:

Bill Number: AB 2084

Related Bills: See Legislative
History

Amended: March 27, 2026

SUBJECT

Federal Tax Exemption Revocation

SUMMARY

This bill would, under the Corporate Tax Law (CTL), upon an organization's notification of a federal suspension or revocation, allow the Franchise Tax Board (FTB) the discretion to retain an organization's state exempt status under certain circumstances 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

The March 27, 2026, amendments removed provisions that would have created a 90-day cure period upon an organization's notification of a federal tax-exempt status revocation to the FTB, and replaced them with provisions discussed in this analysis. As modified, the implementation, technical, and policy considerations that were identified in the FTB's analysis of the bill as introduced on February 18, 2026, no longer apply, and were replaced by two technical considerations and one policy consideration.

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, ruling, or group exemption letter to qualify for state exempt status and the FTB receives notification from an organization that its federal exemption status has been suspended or revoked, the FTB is required to suspend or revoke the organization's state exemption status. However, the FTB may, in its discretion, maintain the state exemption status of such organization. This only applies when the suspension or revocation is not related to any of the following:

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

This bill would allow the FTB to prescribe any regulations or procedures necessary to implement the evaluation process, including, but not limited to, the timeline for the exempt organization listed under Internal Revenue Code (IRC) section 501(c)(3) to comply.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2026.

Federal/State Law

The 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

None noted.

Technical 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 consistency of terminology, the following changes are recommended:

- In Section 23701(b)(3)(A) and (B), replace the term "the board" with "the Franchise Tax Board."
- In Section 23701(b)(3)(B)(iv), delete the term "significant."
- In Section 23701(d), strike out (d) entirely as it is unnecessary language because the FTB would have the authority to prescribe rules and regulations under general provisions.
- Because the bill does not specify otherwise, the FTB would be subject to the rulemaking procedures required under the Administrative Procedure Act, which could delay the immediate implementation of the bill. To prevent delays, insert new Section 23701(d), "(d) Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code does not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the Franchise Tax Board pursuant to this section."

Policy Considerations

Section 23701(b)(3)(C) authorizes the FTB to adopt regulations or procedures “including, but not limited to, the timeline for the 501(c)(3) organization to comply.” However, the provision does not specify what requirements the organization would need in order to complete compliance, making the intent of this language unclear. Additionally, federal tax-exempt status is granted under multiple IRC sections, not solely IRC section 501(c)(3). Organizations may instead be exempt under IRC sections 501(c)(4), (c)(5), (c)(6), (c)(7), or (c)(19), among others. It is unclear whether the compliance requirements are intended to apply exclusively to Section 501(c)(3) organizations or to all federally-exempt organizations whose state exemption may be affected by suspension or revocation at the federal level. If this is contrary to the author’s intent, the author may wish to amend the bill to clarify what specific compliance obligations the organization must meet, and whether the provision is intended to apply broadly to all federally exempt organizations or only to those exempt under IRC section 501(c)(3).

LEGISLATIVE HISTORY

SB 934 (Bates, Chapter 59, Statutes of 2020), under the RTC, 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 number of nonprofit organizations whose state exemption is contingent upon their federal exemption that would lose their federal exemption status, and the amount of taxable income that would result from the revocation must be known.

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

Assembly Revenue and Taxation Committee, dated April 10, 2026.

Support

This bill is sponsored by the California Association of Nonprofits, which notes, in part:

Since it became available in 2008, the FTB Form 3500A has enabled many California nonprofits to pursue their state tax-exempt status based on their existing federal 501(c)(3) determination. This welcome efficiency creates what has become a precarious dependency: if the federal government revokes an organization's 501(c)(3) status, potentially as a targeting tactic against programmatic work deemed politically unfavorable, California is statutorily required to revoke that organization's state exemption as well. The FTB currently lacks the authority to delay this action, which can trigger immediate tax liabilities, loss of grant eligibility, and halt essential community services. FTB has indicated that 22% of California charities' tax-exempt status was granted through the Form 3500A process.

While CalNonprofits has and continues to urge these nonprofits to initiate the Form 3500 process with FTB to shore up their state tax-exempt status, this process can take up to eleven months. AB 2084 provides a pragmatic solution by amending Revenue and Taxation Code Section 23701b to allow the FTB to review and exercise discretion in these cases. It also gives nonprofits the time to seek independent state review.

This bill is also supported by Planned Parenthood Affiliates of California, which notes, in part:

At the federal level, tax-exempt status for nonprofit organizations has been a focus of recent attention, including statements about targeting organizations' 501(c)3 tax-exempt status due to disagreements over policies, political activity, or Diversity, Equity, and Inclusion (DEI) initiatives. For many nonprofit organizations, losing this designation would cause significant consequences and create challenges for organizations to continue their work. AB 2084 helps to prevent disruptions to California nonprofit organizations by giving the state Franchise Tax Board greater discretion to review and preserve state tax-exempt status for nonprofits that may be subject to a revocation of their federal tax-exempt status for political reasons associated with mission-driven activities.

Opposition

None on file.

ARGUMENTS

Assembly Revenue and Taxation Committee, Dated April 10, 2026.

Proponents

California Association of Nonprofits
CPCA Advocates, Subsidiary of the California Primary Care Association
Planned Parenthood Affiliates of California

Opponents

None on file.

LEGISLATIVE CONTACT

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