



NONPROFITS: CALIFORNIA FRANCHISE TAX BOARD

# Bill in CA Legislature Aims to Protect Against Exemption-Revocation Threats

04.29.26 | Linda J. Rosenthal, JD



Since Day One of the second Trump administration, there have been continual threats to the nation's charitable nonprofits, including: cutting off funding, unilaterally reversing decades of settled "public policy," and actively meddling in plans and programs to an unprecedented degree. See, e.g., *The Charitable-Sector Pushback Against the Administration: One Year Post-Election* (November 12, 2025) *FPLG Blog* and *Administration Targets Charities Aggressively* (September 30, 2025) *FPLG Blog*.

There is one particular weapon in the federal arsenal, though, that is the ultimate danger: namely, the power (coupled with willingness) to revoke the federal 501(c)(3) tax-exempt status of organizations that are deemed to be acting counter to the president's ideological views and priorities.

In the past week, this menace has surfaced in an even more egregious manner with criminal indictments. See *Federal Grand Jury Charges Southern Poverty Law Center for Wire Fraud, False Statements, and Conspiracy to Commit Money Laundering* (April 21, 2026) *Press Release*, United States Department of Justice.

In response, see – for example: *The Poverty of the DOJ Indictment of the Southern Poverty Law Center* (April 25, 2026) Andrew Weissmann, Esq., *Just Security*.

## ***Defenses and Strategies***

Throughout these fifteen months, the charitable community, its professional advisors, EO-focused academics, and other allies have produced a wealth of literature specifically on the question: What, if any, is the power of the federal executive branch to summarily revoke a 501(c)(3) tax exemption?



Included in this collection of thoughts and advice are, for instance, these helpful articles:

- [How the IRS Can – and Cannot – Revoke Federal Tax-Exempt Status](#) (May 6, 2025) Jeffrey Scott Tenenbaum, Esq., *American Bar Association*
- [Harvard Does Have Options if It Loses Tax-Exempt Status](#) (May 21, 2025) April, Galle, Hackney and Hitoshi Mayer, *Tax Notes Today*

### ***Partial End-Run Last Fall***

Last October, there was discussion – and successful action! – on a strategy to blunt the devastating effects of federal administrative summary revocation for California’s charitable organizations. See: [New Law Protects California Nonprofits From Political Targeting](#) (October 2025) *California Association of Nonprofits* and [New CA Law Safeguards Access to State Grants if IRS Revokes Exemption](#) (October 14, 2025) *FPLG Blog*.

The problem: “A wave of executive orders, funding cuts, and political targeting of 501(c)(3) tax-exempt status by the Trump Administration have created deep uncertainty across the nonprofit sector. These challenges highlight a key vulnerability: nonprofits’ eligibility for state funding is typically tied to maintaining their federal 501(c)(3) tax-exempt status. Consequently, if the federal administration were to revoke a nonprofit’s federal tax-exempt status over mission disagreements, then their access to vital state funding would be instantly jeopardized.”

The solution: California’s Legislature approved – and Governor Gavin Newsom signed into law – new priority legislation: [Assembly Bill 1318](#). The bill was submitted to lawmakers by Assemblymember Mia Bonta (D-Oakland) and sponsored by CalNonprofits. “This new law, effective immediately, expands the definition of a ‘qualified nonprofit organization’ for state grants and contracts to include either federal or state tax-exempt status. Previously, these state funding opportunities were tied to acquiring and retaining federal 501(c)(3) approval.”

“[F]or certain smaller organizations which had applied for CA state exemption via the short-form 3500-A,” it’s not a complete fix, though. They “likely will face immediate revocation of state tax-exempt status if federal tax-exempt status is revoked by the IRS.” (The long-form filers may be safe as to their state exemptions.)”

We elaborated in [our October 14, 2025, post](#). “The remedy for the Form 3500-A filers may be to try to reapply for state tax exemption via a Form 3500. However, not all smaller organizations meet the eligibility requirements for that procedure and, in any event, the wait time for approval could be nine months or more.

### ***New Assembly Bill Under Consideration***

The California Association of Nonprofits publishes – and updates daily – the [Legislation Tracker](#), its chart-formatted compilation of important bills relevant to the state’s charitable sector and under current consideration in the California Legislature. There are four “high priority” pieces of legislation sponsored by CalNonprofits.

Leading the list today, April 29, 2026, [is a bill](#) by Assembly Member Rebecca Bauer-Kahan (D-Oakland), introduced on February 18, 2026. It was last amended on April 20, 2026 [\[pdf\]](#) and is now in



the Assembly Appropriations Committee.

Assembly Bill (AB) 2084, titled “tax-exempt organizations: revocation of tax-exempt status” is officially described as: “Statute in the state’s Revenue & Taxation Code Section 23701 requires FTB – in the event of 501c3 revocation by the IRS – to revoke an organization’s California tax-exempt status if they filled out the abbreviated 3500A form. AB 2084 introduces greater discretion for FTB to review nonprofits facing revocation of their tax-exempt status due to federal action tied to mission-driven programmatic activities.”

More particularly, “[u]nder current law, nonprofit organizations can be exempt from California Corporation Tax if the Franchise Tax Board (FTB) issues a determination based on an application or proof of federal tax-exempt status; the FTB must suspend or revoke the state exemption if the organization’s federal exemption is suspended or revoked.”

Continuing: “This bill changes that mandate by allowing the FTB to retain a group’s California tax-exempt status at its discretion when the federal suspension or revocation was not caused by fraud, intentional misrepresentation, misuse or diversion of funds, failure to file required returns or reports, or other breaches of reporting or governance....”

See also supporting documents from the California Association of Nonprofits:

- [CalNonprofits Sponsor Support Letter](#) (April 2, 2026) [3 pp. PDF]
- [AB 2084 Fact Sheet](#) [1 page PDF]
- [Letter to Chair, Appropriations Committee](#) (April 27, 2026) [4 pp. PDF]

### ***Conclusion***

Armed with this extensive background information, you will have everything you need to know about proposed AB 2084.

You will not, however, have a clue about the mysterious process by which bills become law in California. It’s entirely unlike the federal “how a bill becomes a law” process you learned in school.

For an introductory road map, see, e.g.:

- [The Legislative Process: A Citizen’s Guide to Participation, California State Senate](#)
- [Considering fiscal measures and the suspense file process](#) (August 28, 2025) Chris Micheli, Esq., The Micheli Files, *Capitol Weekly*
- [California lawmakers reject hundreds of bills in rapid-fire hearings](#) (May 23, 2025) Jeanne Kuang and Yue Stella Yu, *calmatters.org*
- [Understanding how a California bill dies without public debate](#), (May 16, 2023) Nicole Nixon, *capradio.org*.

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