



NONPROFITS: LEGISLATION

Blunting Fed Threats to Charitable Sector: New CA Law

10.07.26 | Linda J. Rosenthal, JD



For the charitable-nonprofit community in California, the 2026 legislative proceedings in Sacramento were busy but uneven in terms of wins and losses.

Early in each calendar year, the [California Association of Nonprofits](#) designates a relatively small number of proposed bills (out of the hundreds filed) to “sponsor” or “support.” See [Legislation Tracker](#), published in chart format and updated daily by CalNonprofits.

In February, there were thirteen individual bills on that chart. By the August 31st deadline for voting by the senators and assembly members, two had already been signed into law. Another had not made it to a floor vote at all.

Of the remaining ten lawmaker-approved items that reached the governor’s desk for his consideration by midnight on September 30th, there were seven important victories. But there was also a [trio of deeply disappointing](#) defeats.

The “marquee measure” of 2026 was [SB 1240](#), “Office of Nonprofit Empowerment.” See [CA Nonprofit Grantmaking Reform: Exciting New Developments](#) (May 7, 2026) [FPLG Blog](#). This bill was to create a much-needed centralized hub within state government for the critical partnership with California’s over 100,000 tax-exempt organizations. SB 1240 had strong and enthusiastic bipartisan support. The measure passed unanimously in the Senate and nearly so in the Assembly.

Two related bills – [AB 880](#), and [AB 1039](#) – would have authorized full and fair funding for grants and contracts with the charitable-nonprofit sector, including broader authorization for advance payments as well as for “indirect costs,” i.e., overhead. They, too, had deep support on both sides of the



aisle.

Nevertheless, Governor Gavin Newsom – for the fourth year in a row! – declined to sign them into law. See [Veto Watch for CA Charitable-Sector Legislation](#) (September 3, 2026) *FPLG Blog* and [CA Governor Vetoes Grantmaking-Reform Bills](#) (October 1, 2026) *FPLG Blog*.

What's next?

We'll shift gears now for a while as the prime movers in this massive and coordinated effort for fairness and equity decide how next to proceed after the vetoes of [SB 1240](#), [AB 880](#), and [AB 1039](#).

Let's pivot to a closer look at some of the other bills “sponsored” or “supported” by CalNonprofits which have successfully made it onto – and off – the governor's desk with his signature.

AB 2084 – Blunting Oval-Office Threats

The first item on the CalNonprofits [Legislation Tracker](#) for 2026 is Assembly Bill [\(AB\) 2084](#), “Corporation Tax Law: tax-exempt organizations: revocation of tax-exempt status.”

This bill – (now law, having taken effect as “urgency” legislation when the governor signed it on September 30, 2026) – is a simple but elegant “block” by the State of California against one of the Trump administration's latest and most potent threats to the charitable-nonprofit sector.

The unrelenting “Shock-and-Awe 2.0” strategy has included numerous outrageous attempts to coerce 501(c)(3) organizations into falling into line with the Trump administration's “agenda” and “policies” – and to punish those that resist. See our post from earlier in the legislative session for more background: [Bill in CA Legislature Aims to Protect Against Exemption-Revocation Threats](#) (April 29, 2026) *FPLG Blog*. [Since Inauguration Day 2025, “... 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.... 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.”]

In earlier, more reasonable, times – when the federal government and the various states worked amicably together to monitor charitable organizations and trusts – California's state income-tax exemption law provided for automatic revocation of the state income-tax exemption upon notice of the IRS yanking the federal 501(c)(3) exemption.

How is new AB 2084 a simple fix for the much different and problematic reality of 2026: It **amends a few words** in Section 23701 of the (CA) Revenue and Taxation Code. Now, the Franchise Tax Board “***may, in its discretion, maintain***” the state income-tax exemption so long as the federal suspension or revocation of 501(c)(3) status “is not related to any of the following: (i) Fraud or intentional misrepresentation. (ii) Misuse or diversion of organizational funds. (iii) Failure to file required returns or reports. (iv) Other breaches of organizational reporting or governance requirements.” (emph. added)



Simple ... and decidedly elegant: A decisive blow from Sacramento to Washington, D.C.

A 2025 Attempt Was Also Foiled

It's easy to forget (amidst all of the chaos) that this is the *second time!* in two years that the California Legislature and Governor Newsom have taken swift and decisive action to block potentially devastating harm by the Trump administration to the state's charities.

"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," according to Varidda Voraakom of the Center for Nonprofit & Volunteer Leadership, writing a year ago in *New Law Protects California Nonprofits From Political Targeting* (October 10, 2025), *CalNonprofits*.

Along came urgency legislation last year: Assembly Bill (AB) 1318, "Public social services: tax-exempt nonprofit organizations.

This measure – enacted as urgency legislation as well, and taking effect on October 7, 2025 – uncoupled state grant eligibility from federal tax-exempt status. See *New CA Law Safeguards Access to State Grants if IRS Revokes Exemption* (October 14, 2025) *FPLG Blog*. "Previously, these state funding opportunities were tied to acquiring and retaining federal 501(c)(3) approvalThe change safeguards organizations "from politically motivated efforts at the federal level that could block access to state resources."

Conclusion

The threats against the 501(c)(3) universe – from the most illustrious charitable institutions in major cities on the coasts to the smallest youth organizations in rural pockets of the Midwestern prairies – have intensified in strength and variety.

Enactment of Assembly Bill (AB) 2084 is an example of how the charitable-nonprofit sector across the United States can work together with sympathetic state lawmakers and governors to blunt the continual barrage of danger being launched continually from the Oval Office.

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