



IRS

New CA Law Safeguards Access to State Grants if IRS Revokes Exemption

10.14.25 | Linda J. Rosenthal, JD



Midnight yesterday was the CA governor's last chance to sign or veto legislation this year.

As usual, the legislative load was heavy. Lawmakers sent him a total of 917 bills to review. He [signed 794 of them](#), but [vetoed 123](#), "some of which he cited as having significant fiscal implications." See [Governor Newsom issues legislative update 10.13.25](#). The money situation at all levels of government is, to say the least, volatile.

CalNonprofits: Priority Legislation

Each year, the California Association of Nonprofits (CalNonprofits) takes an active interest and role in sponsoring or supporting a number of bills filed by individual lawmakers who are dedicated to advancing the needs and interests of the charitable community and its beneficiaries.

For three years, the highest priority was the California Nonprofit Equity Initiative, a multi-pronged series of related bills to reform state grantmaking practices and procedures. Despite high hopes, there were strong economic headwinds each year that were too difficult to overcome. See [CA Grant Reform: Third Time's a Charm?](#) (April 7, 2025) [FPLG Blog](#).

This year, the odds were even more stacked against new laws that would require infusions of money. See [CalNonprofits' 2025 Sponsored Legislation \(earlier in 2025\)](#) and [CalNonprofits Priority Legislation](#) (October 13, 2025). The key Nonprofit Equity Initiative bills did not make it even to a vote. However, they are on deck for possible consideration again in January 2026.

Special Emergency Legislation: AB 1318



There was, however, a major victory this time around thanks to emergency legislation filed by Assemblymember Mia Bonta and sponsored by the California Association of Nonprofits. See [Assembly Bill \(AB\) 1318: Public social services; tax exempt nonprofit organizations.](#)

In [*New Law Protects California Nonprofits From Political Targeting*](#) (October 10, 2025) *Center for Nonprofit & Volunteer Leadership*, Varidda Voraakom explains that emergency amendments were proposed several months ago in light of the serious and ongoing threats by the Trump administration to step up 501(c)(3) revocations for perceived dissident activity.

“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 California nonprofit’s tax-exempt status over mission disagreements, then that group’s “access to vital state funding would be instantly jeopardized.”

On October 7, 2025, Governor Newsom signed into law [Assembly Bill 1318](#), as amended. It is designated as “emergency” legislation: hence, it goes into effect immediately. The new law “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.

The change safeguards organizations “from politically motivated efforts at the federal level that could block access to state resources.”

Conclusion

There is a caveat, though, for [certain smaller organizations](#) which had applied for CA state exemption via the short-form 3500-A. 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.)

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.

– Linda J. Rosenthal, FPLG Information & Research Director