



Assemblymember Mia Bonta, 18th Assembly District

AB 1318 (Bonta) Nonprofit Funding Protection Act

(Updated – 04.01.2025)

SUMMARY

AB 1318 guarantees that nonprofit organizations in California providing essential services to vulnerable populations can still receive state funding, even if their federal 501(c)(3) tax-exempt status is revoked.

BACKGROUND

A nonprofit organization is a mission-driven entity that operates for the public good rather than for profit, reinvesting any surplus funds into its programs and services to further its charitable, educational, or social objectives. To establish a nonprofit in California, an organization must file Articles of Incorporation with the Secretary of State and apply for tax-exempt status under state and federal law. The organization must also register with the California Attorney General's Registry of Charitable Trusts to ensure compliance with state regulations. State funds are often awarded to nonprofits through grants, contracts, or other funding mechanisms authorized by the Legislature, state agencies, or local governments.

EXISTING LAW

Section 501(c)(3) of the Internal Revenue Code (IRC) grants tax-exempt status to organizations that serve the public good without seeking profit. These groups are exempt from federal income tax and must focus on charitable, scientific, religious, or public safety purposes. They can also raise funds and donate the proceeds to recognized charities or individuals in need.

Section 23701d of the California Revenue and Taxation Code (RTC) grants state tax-exempt status to nonprofit organizations. These organizations must operate exclusively for charitable, religious, scientific, or educational purposes and must not distribute profits to private individuals or shareholders. Nonprofits registered and operating in the state of California are also exempt from state income taxes and may qualify for exemptions from some property taxes, sales and use taxes, and franchise taxes.

Several provisions in the California Welfare and Institutions Code (WIC), authorize the California Department of Social Services to contract with or award grants to nonprofit organizations to provide aid and services to refugees, undocumented persons, asylees and vulnerable noncitizens. In these code

sections nonprofit organizations must have 501(c)(3) tax-exempt status (WIC 13275; 13304; 13306; 13401; 13650).

PROBLEM

Since taking office, the President has issued hundreds of executive orders, memoranda, and proclamations that have subjected undocumented individuals, refugees and asylees to unlawful detainments, mass deportation plans, removal of due process rights, and elimination of other basic protections. These policies directly conflict with California's ongoing efforts to uphold and expand the civil rights of undocumented individuals and immigrant communities in the state.

The CA State Department of Social Services allocates funding to local governments for refugee and immigrant social services programs, and nonprofits are eligible to apply for these funds if they meet the definition of a "qualified nonprofit organization," or an organization that has 501(c)(3) tax-exempt status.

Recent federal legislation has targeted the status of nonprofits serving vulnerable populations, including Senate Bill 497 (Hagerty, R-TN), which seeks to revoke 501(c)(3) tax-exempt status of organizations aiding undocumented immigrants. HR 9495, introduced in 2024 by Claudia Tenney (R-NY), would have granted the Treasury Secretary unrestricted power to strip away the tax-exempt status of nonprofit organizations deemed "terrorist-supporting organizations" without due process. These measures are designed to block legal and social services to immigrants and asylum seekers by attacking the nonprofits that serve them.

SOLUTION

AB 1318 clarifies that nonprofits who have state tax-exempt status **OR** federal 501(c)(3) tax-exempt status are eligible to receive public funding for programs that provide aid and services to refugees, undocumented persons, asylees and vulnerable noncitizens.

SUPPORT

California Association of Nonprofits (sponsor)

FOR MORE INFORMATION

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