

Out-of-State Nonprofit Employers: Just One Employee in California? You Might Be Still Be “Doing Business” in the Golden State

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Hiring just one California-based employee can unintentionally trigger a range of legal and tax obligations for out-of-state nonprofit employers. Without proper registration or exemption filings, organizations may face late penalties, retroactive tax assessments, suspension from charitable solicitation, and even restrictions on entering into or enforcing contracts in California. What starts as a simple remote hire can quickly turn into a complex compliance issue—one that’s often overlooked until it’s too late.

In today’s remote-friendly world, nonprofit organizations are no longer limited by geography when building their teams. The ability to hire across state lines means access to top-tier talent, expanded mission reach, and more flexibility for staff. But if even **one** of your employees lives and works in **California**, your nonprofit may unknowingly be crossing a legal threshold: you may be considered “doing business” in California.

That seemingly small shift—one remote hire—can trigger a host of **state compliance requirements**. And if you’re not aware of them, your nonprofit could face penalties, missed filings, or even suspension from key activities like fundraising. As an attorney who has spent over two decades guiding nonprofit leaders through complex compliance challenges, I can tell you this: California

doesn't mess around.

Here's what you need to know to protect your organization and keep your mission moving forward.

California's Definition of "Doing Business"

You don't need to have an office, own property, or even host in-person events in California to be classified as "doing business" there. The California Franchise Tax Board (FTB) uses a broad definition that can easily capture out-of-state organizations, including those with minimal presence.

According to the FTB, your nonprofit is considered to be "doing business" in California if **any one** of the following is true:

- **You're actively engaging in any transaction for the purpose of financial gain within California.**
This can include providing services, receiving program fees, or generating any kind of revenue within the state—even passively or through partnerships.
- **Your organization is organized or commercially domiciled in California.**
This applies if California serves as your principal place of operations or decision-making, even if you're incorporated elsewhere.
- **You exceed California's economic nexus thresholds**, which are updated annually. For 2024, your nonprofit meets the threshold if it has:
 - **Sales in California** exceeding **\$735,019**
 - **California property** valued over **\$73,502**
 - **California payroll** totaling more than **\$73,502**

That final bullet point is especially important for remote employers. **Hiring even one full-time employee in California may put your payroll over the threshold**, making your nonprofit subject to state tax and registration requirements—even if you have no other California ties.

[Here's the FTB's official guidance](#) if you want to take a deeper dive.

What Happens If You're "Doing Business" in California?

Once your nonprofit crosses the "doing business" line, you trigger a series of state-level obligations. And here's the twist: **even if you're federally tax-exempt, California has its own separate rules** for recognition, reporting, and exemption.

Here's what's typically required:

- **Register as a foreign nonprofit corporation** with the **California Secretary of State**. This lets the state know your nonprofit is operating within its borders, even if you're incorporated elsewhere.
- **Apply for California income tax exemption** from the Franchise Tax Board. This is a separate process from your IRS determination and requires filing Form 3500 or 3500A.
- **File an annual informational return** (Form 199 or 199N) with the FTB. This is California's equivalent of the IRS Form 990.

- **Pay the state's \$800 minimum franchise tax**, unless your organization qualifies for an exemption after receiving formal recognition from the FTB.

Skipping any of these steps can lead to headaches down the road—especially if the state discovers your presence before you disclose it voluntarily. While California does allow tax-exempt nonprofits to avoid the franchise tax, **you must be formally recognized as exempt at the state level** to benefit.

Why This Matters: Risk, Penalties & Consequences

Failing to comply with California's rules isn't just a technicality—it can result in real consequences for your organization's ability to operate in the state.

If your nonprofit is operating in California without proper registration or filings, you may face:

- **Late filing penalties and accruing interest** for missed tax returns or exemption applications
- **Retroactive tax assessments**, even for years you didn't realize you had a filing obligation
- **Suspension or delinquency status**, which can appear in public databases and affect credibility
- **Loss of fundraising privileges**, particularly if you've failed to register with the California Attorney General
- **Ineligibility to enforce contracts in California courts** if you're not in good standing with the Secretary of State

California is known for active enforcement, and the Franchise Tax Board—as well as the Attorney General's office—regularly identify and pursue unregistered organizations. So yes, even if you're small and mission-driven, the state *will* notice.

Other Compliance Triggers for Nonprofits

Once your nonprofit is considered active in California, your obligations go beyond taxes. The state has some of the most detailed regulatory frameworks in the country when it comes to charitable solicitation, employment, and governance.

Here are additional compliance steps your organization may need to take:

- **Register with the California Attorney General's Registry of Charities and Fundraisers**
Any organization soliciting donations in California is required to register, even if those donations are made online.
- **File the RRF-1 Annual Renewal** with the Attorney General's Office
This form is separate from your tax returns and is used to maintain charitable registration status.
- **Register for California payroll taxes**
If you have employees in the state, you must withhold and remit state income tax, and pay unemployment insurance and other payroll-related taxes.
- **Comply with California labor laws**
This includes wage and hour laws, paid sick leave, meal and rest breaks, and workplace postings. California's employee protections are extensive—and noncompliance is costly.

While it may feel overwhelming, these requirements are all manageable with a proactive compliance strategy and legal support tailored to your nonprofit's unique structure.

What Should You Do Now?

If your nonprofit is based outside of California but has hired (or is planning to hire) an employee who lives and works in the state, it's time to get organized. Here's a streamlined checklist to help you stay compliant:

- **Determine whether your nonprofit is "doing business" in California** based on FTB criteria
- **Register with the California Secretary of State** as a foreign nonprofit entity
- **Apply for California income tax exemption** using Form 3500 or 3500A
- **Register with the Registry of Charities and Fundraisers**, and file your annual RRF-1
- **Ensure your payroll and employment policies** align with California law
- **Consult with legal counsel** who specializes in nonprofit compliance in multi-state operations

The sooner you act, the more options you'll have—and the fewer surprises you'll face later.

As the CEO and Managing Attorney at FPLG, I've spent my legal career helping nonprofit leaders build and protect their organizations—from the startup stage to complex national operations. California is a wonderful place to find talent and expand impact—but it also comes with one of the most complex regulatory environments in the country.

Understanding your obligations before the state reaches out to you is more than just good risk management—it's how you protect your mission, your funding, and your peace of mind.

Need help registering, filing, or confirming your nonprofit's obligations in California?

We're here to help. At *For Purpose Law Group*, our team understands the ins and outs of nonprofit compliance in California and beyond. [Let's connect.](#)