



# LEAGUE OF WOMEN VOTERS

## §501(c)(3) OR (c)(4): WHICH TO BE, OR BOTH?

### Frequently Asked Questions

#### *What does it mean that a League is “tax exempt”?*

Being “tax exempt” under either §501(c)(4) or (c)(3) (and the applicable state tax provisions) means that a League organization is exempt from federal and state income taxes. However, they typically are still subject to other kinds of taxes, such as payroll taxes, personal property taxes, sales or use taxes, etc., unless the applicable taxing jurisdictions provide an exemption.

#### *What is the traditional League’s tax exempt status?*

Historically, Leagues have qualified as tax exempt under §501(c)(4) as a “social welfare” organization. Over the years, LWVUS, most state Leagues and larger local Leagues have formed a “sister” Education Fund entity which is qualified as tax exempt under §501(c)(3).

#### *What are the basic tax differences between §501(c)(3) and (c)(4)?*

There are only a few significant differences between the two subsections, not all of which have relevance for Leagues considering a change in tax status:

1. A §501(c)(4) organization can support or oppose candidates for elected office and political parties, while a §501(c)(3) organization cannot. However, this difference is irrelevant for League organizations, as our own internal LWV rules prohibit this kind of political activity.
2. There is no limit on the lobbying activities of a §501(c)(4) organization, whereas a §501(c)(3) organization’s lobbying activities cannot constitute a “substantial part” of its overall activities. As further discussed below, the latter limitation should not impact in any way the operations of a typical League which converts to §501(c)(3) status.
3. Contributions and member dues are deductible for donors and members of a §501(c)(3) organization, provided that the contributor/member does not receive anything of value in return and the contribution or dues are not specifically designated for use by the recipient for lobbying expenditures. Neither contributions nor dues are deductible for donors and members of a §501(c)(4) organization.

In summary, conversion to §501(c)(3) status provides a significant tax benefit for donors and members without imposing any practical restrictions or limitations on a League’s typical operations.

#### *What benefits can result from conversion to §501(c)(3)?*

Clearly the most certain long term benefit is that donors and members who itemize deductions for tax purposes will achieve a tax benefit from donations and member dues. This can include in-kind contribution such as occurs when members attend the LWVUS or state League conventions or councils and absorb some or all of the cost of attendance

It is also certain that if a League is a dual-entity organization, conversion into a single §501(c)(3) organization will materially reduce administrative work and expenses. If a League is currently a single organization, it will have reduced administrative work from not having to maintain the traditional form of Ed Fund account at its state League or LWVUS, although some types of financial relationships with a state League or LWVUS may continue for other purposes.

It is expected that donations in general should increase, although this may be difficult to measure because of all of the things which can impact donation levels. Also, League advocacy efforts might be more easily supportable by tax deductible donations or possibly grant funding.

***What might be the impact of a conversion on a League's advocacy activities?***

With respect to a League's general advocacy activities, where there is no reference to specific legislation or ballot measure and thus no "lobbying," there is no limitation at all under §501(c)(3). "Lobbying" for tax purposes is closer to the League concept of "action" rather than "advocacy." Activities are classified as lobbying if they are related to acts, bills, resolutions, or similar items (a) at the federal, state or local legislative level, or (b) in ballot measures, e.g., a referendum, initiative, constitutional amendment, etc. They must involve communication with a member or employee of a legislative body, or with any other government official or employee who may participate in the formulation of the legislation. It also includes "grass roots" lobbying, or communication with members of the organization or members of the public to urge them to contact their legislator, etc., or to vote for or against a ballot proposition, etc. With respect to ballot measures, communications to voters would qualify as lobbying.

A §501(c)(3) League organization really should elect under §501(h) to measure its lobbying by dollars spent rather than time spent, or else all its members will have to keep detailed time records for all their League work, not just the time for lobbying activities. In the state or local League context, "action" or lobbying normally involves members' time rather than much staff time, and little or no out of pocket expenditures. So with the §501(h) election in place, Leagues will almost never realize any restrictions on their activities in the broad field of advocacy/lobbying.

***Are there possible disadvantages or costs to a League converting to being tax exempt under §501(c)(3)?***

There is an intangible "cost" of achieving this change due to (a) the time necessary to make the required analysis and planning, and then (b) to actually implement the conversion, but all of this time should be easily manageable with the resources available from LWVUS. If a League has to apply to the IRS as part of the conversion process, there is a \$600 application fee.

It is possible that annually a League will have a few additional tax forms to be filed, but overall the incremental work is very minimal.

***Does LWVUS recommend that Leagues convert to §501(c)(3)?***

LWVUS does not "recommend" that a League pursue this conversion because it has concern that a League could have very specific individual factors which might make such a conversion impractical. However, LWVUS is providing substantial support to all Leagues wishing to consider this change through the services of LWVUS consultants Tom Carson ([tpcarson@outlook.com](mailto:tpcarson@outlook.com)) and Toni Larson ([toni.larson@gmail.com](mailto:toni.larson@gmail.com)), and **highly recommends** that all League consult with them during their planning and certainly before making a final decision, Under certain local circumstances, the services of attorney may also be beneficial.