The Differences Between a 501C3 & 501C4?

The information below was compiled from several sites on the internet and the IRS website.

The 501(c) section under the Internal Revenue Service guidelines and regulations is designed for non-profit organizations. The difference between a 501(c)(3) and a 501(c)(4) are slight, but is mainly determined by the type of organization that is established.

Tax-Exemption
A 501(c)(3) and 501(c)(4) are both tax-exempt organizations and do not have to pay taxes on the money donated to the organization, but only the donations provided to a 501(c)(3) are tax deductible for the donors. Donating to a 501(C)(4) organization does not allow the donor to write-off the donation. The only exceptions are organizations, such as fire or rescue or certain types of veterans' organizations, as described in the IRS code. A 501(c)(3) must provide donors with a receipt for the amount of the donation or a receipt for the value of the donation, while the 501(c)(4) does not have to do the same. Many states allow 501(c)(3) organizations to be exempt from sales tax on purchases, as well as property taxes. Special nonprofit, bulk rate postage discounts are available from the Post Office to qualifying 501(c)(3) organizations.

Organizations
One difference between a 501(c)(3) and 501(c)(4) organization is the type of organization established. Examples of 501(c)(3) organizations include churches, boys' and girls' clubs, charitable hospitals, non-profit retirement homes or elderly homes, parent-teacher associations and different chapters of the Red Cross. 501(c)(4) organizations include civic leagues such as the Lions Club, social welfare organizations, homeowners' and tenants' associations, veterans organizations such as the Veterans of Foreign Wars (VFW), and employee associations, as well as other non-profit organizations that devote the net of their donations to charitable, educational or recreational purposes.

Organization Requirements
Even though the differences between a 501(c)(3) and 501(c)(4) are determined by the type of organization, another difference is how the organization is set-up or established. For example, a 501(c)(3) must be a corporation, fund, foundation or community chest, and follow all the state regulations pertaining to these types of organizations. A 501(c)(4) does not have to be any one of these
types of organizations; the 501(c)(4) only has to be a organization that is not established for profit and only uses the funds for social welfare.

**Political Campaign Activity**

As tax-exempt entities, both 501(c)(3) and 501(c)(4) organizations are not allowed to participate or intervene in any political activity, such as promoting a candidate or opposing a candidate. The difference is that a 501(c)(3) organization loses its right to be a tax-exempt even if the organization indirectly participates in a political activity. A 501(c)(4) has a way to get an exception to the political activity regulation. The 501(c)(4) must provide proof to the IRS that it works exclusively for the betterment of the community or is concentrated on the social welfare of the community. Then and only then, can the organization get an exemption from the IRS to participate in a political activity, such as promoting or opposing a candidate or publishing political information in organization newsletters or via other communications channels. Activities intended to encourage people to participate in the electoral process, such as voter registration and get-out-the-vote drives, are not considered prohibited political campaign activity if conducted in a non-partisan manner.

**Lobbying (Attempting to Influence Legislation)**

A 501(c)(3) organization may engage in some lobbying, both direct and grassroots. However, too much lobbying activity risks loss of tax-exempt status. Whether an organization's lobbying efforts constitute a “substantial part” of its overall activities is determined by the IRS on a case-by-case basis. The IRS considers a variety of factors, including the time devoted (by both compensated and volunteer workers) and the expenditures devoted by the organization to the activity. A rule of thumb is: lobbying activity should not represent more than 10-20% of the organization's activities, nor consume any more than 10-20% of the resources of the organization. *Legislation* includes action by Congress, any state legislature, any local council, or similar governing body, with respect to acts, bills, resolutions, or similar items (such as legislative confirmation of appointive office), or by the public in referendum, ballot initiative, constitutional amendment, or similar procedure. It does not include actions by executive, judicial, or administrative bodies. Organizations may, however, involve themselves in issues of public policy without the activity being considered as lobbying. For example, organizations may conduct educational meetings, prepare and distribute educational materials, or otherwise consider public policy issues in an educational manner without jeopardizing their tax-exempt status.
Grant Opportunities

Many foundations only give grants to 501(c)3 organizations, or require a copy of your organization’s “IRS determination letter.” Like a charity, a foundation is also a type of nonprofit, a legal entity that is exempt from federal income tax. In return for this tax-exempt status, the United States government regulates how foundations can give away their money. By law, a foundation can only give funds for charitable purposes – to support: religious, charitable, scientific, literary, education, and amateur sports organizations, organizations that prevent cruelty to children or animals, government entities and agencies operating foundations that provide charitable services to the community.

Restrictions on Activities

501(c)(3) organizations are highly regulated entities. Strict rules apply to both the activities and the governance of these organizations. No part of the activities or the net earnings can unfairly benefit any director, officer, or any private individual, and no officer or private individual can share in the distribution of any of the corporate assets in the event the organization shuts down. Further, lobbying, propaganda or other legislative activity must be kept relatively insubstantial. Intervention in political campaigns or the endorsement/anti-endorsement of candidates for public office is strictly prohibited.

Compliance

Both 501(c)(3) and 501(c)(4) status come with compliance requirements, the most obvious of which is operating the organization within the IRS regulations. In addition, most organizations must file some version of Form 990 with the IRS each year. Additional compliance requirements exist at the state level. If an organization fails to file for three consecutive years, their exemption status is automatically revoked and they are no longer eligible to receive tax-deductible contributions. The IRS has a list of these organizations. You can check Exempt Organizations Select Check (Pub. 78 data) to see if your Alliance is on the list. For best search results, be sure to enter the exact legal name of the organization.