Fundraising for a 501(c)(4) Organization

Citizen's United gave corporations new power to influence elections and the new rules have fundamentally changed how elections are conducted. Just as this decision opened doors for corporations representing big oil, pharmaceuticals and agri-business to get involved in elections, it also opened doors for 501(c)(4) organizations.

Nonprofits are uniquely positioned to speak out about social issues and solutions because they represent their constituents rather than commercial or economic interests. More than ever, nonprofit corporations can and should take advantage of this new legal landscape to actively participate in elections. Influencing the electoral process is often the most effective strategy for a nonprofit to achieve its policy goals. In addition, 501(c)(4)s can engage in unlimited lobbying which can also be a huge advantage.

In fact, many 501(c)(3) organizations across the country are now interested in establishing their own 501(c)(4) organization in order to expand their lobbying efforts and make sure that candidates who are elected will represent their issues and values. In other instances, individuals have identified a need for an independent 501(c)(4) not affiliated with other exempt organizations.

If you are interested in setting up a 501(c)(4) the best roadmap for success is to start the journey with a well thought-out plan and an understanding of the rules of the road. This toolkit addresses how new 501(c)(4) organizations should approach fundraising and discusses the rules and best practices of established organizations.

If you would like more in-depth information about setting up an organization or if you have other questions about the rules and regulations for 501(c)(4)'s please see the Alliance of Justice publication, *The Connection: Strategies for Creating and Operating 501(c)(3)s, 501(c)(4)s and Political Organizations*.

TABLE OF CONTENTS:

Are You Ready to Set-up a 501(c)(4)?

Before you venture down the path of creating a new 501(c)(4) organization it is helpful to have a very clear idea of the new organization's mission, why it is needed and what you hope it will accomplish. Starting up a new organization can be time consuming and requires thoughtful decisions, diligence and legal guidance. If you are building the organization from the ground up, you should identify a core group of committed individuals who are willing to assist in the creation of the organization. You should establish a plan with a timeline, specific benchmarks, assigned responsibilities, and fundraising goals. This will keep the process moving and give the group the ability to evaluate its progress.

As you contemplate establishing a new standalone 501(c)(4), consider the following questions:

- Why do you want to start a new 501(c)(4)? Is there a need or a niche that needs to be filled? What do you hope to accomplish?
- Is there a dedicated group of individuals willing to assist in the building the new 501(c)(4)?
- Is there support in the broader issue community for building a new 501(c)(4)?
- Do you have access to legal advice?
- Do you have the ability to cover or raise the funds for the initial start-up costs? Have you identified long-term funding support for the organization?
- Do you have a plan and a timeline for the development of the new 501(c)(4)?

If you have an existing 501(c)(3) organization and want to expand its advocacy work by creating an affiliated 501(c)(4), the process is no different. However, the considerations may be:

- Why do you want to create an affiliated 501(c)(4)? What do you hope to accomplish that you cannot accomplish with your 501(c)(3)?
- Is there support from the organization's leadership, the Board of Directors and institutional funders for this new organization and expanded mission?
- Are there staff resources and expertise available to operate a 501(c)(4), including new programmatic obligations, additional fundraising, and added levels of recordkeeping and reporting.
- Do you have the ability to cover or raise the funds for the 501(c)(4)? Have you identified long-term funding support for the organization?
- Is there support in the broader issue community for building a new 501(c)(4)?
- Do you have access to legal advice?
- Do you have a plan and a timeline for the development of the affiliated 501(c)(4)?

> If you would like more in-depth information about setting up an organization or if you have other questions about the rules and regulations for 501(c)(4)'s please see the Alliance of Justice's publication, *The Connection: Strategies for Creating and Operating 501(c)(3)s, 501(c)(4)s and Political Organizations*.

Important Fundraising Basics for New 501(c)(4)'s

The act of raising funds for a 501(c)(4) organization is essentially the same as raising money for other types of organizations; it requires that you make the case to donors and ask them for contributions. But it does come with its own set of rules and regulations and your pool of donors will be different. To protect the organization, it is important to understand and follow the rules. Here are some of the basics to get you started.

501(c)(4) Contributions Are Not Tax Deductible as Charitable Contributions

Unlike contributions to a 501(c)(3), donations to 501(c)(4)s are not tax deductible as charitable contributions because these organizations have the ability to engage in an unlimited amount of lobbying and affect the political process directly. When raising money for this kind of work, you should not view this fact as a disadvantage. On the contrary, remind the donor that you are giving them the opportunity to accomplish real change for the issue they care about. And, do not assume all donors benefit from the charitable tax deduction; in fact, the majority of taxpayers do not itemize on their federal income taxes and therefore cannot receive a tax deduction for specific charitable donations.

> Remember, donors rarely give to organizations because they want a tax break; they give because they care about what you do.

For-profit entities may be eligible for a business deduction for a contribution to a c4. However, contributions given for lobbying, political activity, or if the organization lobbies on matters of direct financial interest to the donor's business are not tax deductible.

For more information about the legal requirements related to contributions to 501(c)(4)s, see the section on "Follow the Rules."

Who May Contribute

A 501(c) (4) organization may approach:

- the general public;
- individual donors to an affiliated 501(c)(3) if it rents the c3's list at fair market value (see "Using the Lists of Affiliated 501(c)(3)'s" on page 7);
- community foundations and other philanthropies that are not private foundations;
- corporations that may be able to write off their donations as promotional business expenses rather than as charitable deductions; and
- trade and professional associations, unions, and other non-charitable groups in the community.

501(c)(3) Fundraising v. 501(c)(4) Fundraising – They are different

If you already have an established 501(c)(3) organization and are planning to start a new 501(c)(4) you should be aware that raising money for the new organization will be vastly different from your current fundraising efforts. The biggest difference between 501(c)(3) and 501(c)(4) fundraising is that 501(c)(3) organizations generally raise the majority of their funds from foundations while 501(c)(4) organizations rely on support from individuals, in the form of large and small contributions.

The chart below offers a very generalized comparison of the differences in approach, personality and requirements between foundation donors and 501(c)(4) donors.

501(c)(3) Donors	501(c)(4) Donors
…are foundations.	…are individuals.
…require written proposals.	…are contacted one at a time by phone, mail, email and in the case of major donors, at personal meetings.
…relationships are formal and are established by the foundation trustees, employees and the organizational staff.	…relationships are often less structured and based more on timely personal interactions between a donor and staff and/or board members.
…are focused on furthering their mission or meeting the goals put forth in their charter.	…are focused on a wide array of issues ranging from local, national or international concerns to their personal values and beliefs.
…are usually interested in the long term goals, organizational plans, or specific projects that address bigger problems of concern to the foundation.	…are more interested in immediate problems and solutions.
…want a well thought out plan with "deliverables."	…want to win.
…require significant written follow up and frequent updates on your activities and progress in the form of written reports.	…require less follow-up or updates and are usually communicated with by newsletters, emails, social media and phone calls.

Professional Fundraisers: If your organization is lucky enough to have a staff person or a paid consultant dedicated to fundraising it is important to note that the skills required to work with and raise funds from foundations is different from that of individual donors. Foundation fundraisers must possess strong writing skills and the ability to understand and forecast the expectations of the foundation and requirements of their grant. Fundraisers who are skilled at raising individual donations generally have strong oral communications and people skills and are able to understand the interests and motivations of individuals.

Getting Started

Ideally, you will be able to build relationships with donors who can provide both the seed money to start the organization and commit to long-term support. Once you have these funding commitments, you can move forward with incorporating the organization and embarking on your first fundraising campaign.

Before you start asking potential donors for gifts to the organization make sure that you have made your lists of potential donors, organized your talking points and written a plan. Being prepared and managing your fundraising time wisely will make you more successful and efficient.

Write a Fundraising Plan

A good fundraising program doesn't require a lot of staff, but it does require a written plan and a person to execute the plan that understands how critical fundraising is to the organization's success. To strengthen the organization and the issues it supports a 501(c)(4) must have independent and sufficient funding. As noted, the contributions raised for a 501(c)(4) organization vary in size and come into the organization at different times during the year. A written plan will help you manage the timing of your gifts so that they work in concert with your organizational needs and cash flow. It will also help you build a base of fundraising that grows with the organization, because identifying individuals and cultivating relationships with donors can take a considerable amount of time and outreach.

See the sample plan and planning worksheet included in this toolkit.

Create a Donor base

You should build a fundraising plan that is diverse and brings in a wide range of givers by utilizing a number of different tactics, such as, major donor campaigns, direct mail, phones, email and other on-line tools and large and small events (see the section, *Way to Raise Funds*). Think big but start small. Organize your current list of supporters into two categories; Current Donors and Potential Donors. Then match up those donors to the appropriate tactic.

Create Materials

Before soliciting donors, you should develop some simple, but professional materials that present the mission and program plans for the organization. At a minimum, you should have: an organizational fact sheet with a logo and contact information and a simple budget that demonstrates how your organization raises and spends its resources.

Making the Case

The saying that "people give money to people, not groups," is truer today than ever before. At a time when more and more interest groups, candidates and busy lives are competing for the time and attention of a donor, it is imperative that you utilize every second that you have with them. When you have an opportunity to talk to a donor about your organization maximize the impact of your conversation by being organized, concise and to the point.

- **Build a relationship:** Ask the donor questions that will get them talking about their interests. Tell them your story and why you work/volunteer for the organization and remember to speak from the heart.
- **Problem statement:** Explain why your organization exists and what problem(s) you work to solve. Remember to speak to the donor's concerns about the issue.
- **Our organization is the solution:** Explain the organization's mission and its history. Tell them why your organization is different and adds value, tell them a success story. Remember to speak to the donor's interest in the issue.

- **Urgency:** Explain your current campaign. Tell them why they need to give now and how the gift will be used and the impact it will have.
- **Ask:** After describing how they can help, ask for a specific amount. If asking them to increase their gift, explain why they should give more now. Be QUIET, let them think about it and respond.
- **Close:** Secure a **pledge,** a specific amount by a specific date.
- **Thank:** When you receive the gift, call and thank the person and send an acknowledgement letter within the week.

> **Remember:** Most donors support your organization because they care about your issue; you are not asking them for a handout, you are giving them an opportunity to promote, protect or invest in what they care about.

Engaging Your Board of Directors

The organization's Board of Directors can be one of your greatest resources in the fundraising program. They can not only multiply the number of people asking for contributions but they can also increase the effectiveness of your program. Board members may be people of stature in the community or well-connected in your organization's interest area; therefore they know other people who care about your issue. Their service to the organization and personal giving demonstrates their dedication to the organization, and this makes them a perfect choice for delivering messages to other donors. Because some board members are hesitant about raising money or asking their friends to give, here are some tips to assist your board members in fundraising.

- Create a "Board Member Campaign" with fundraising goals and ask each board member to make a fundraising commitment.
- Ask the board members to hold each other accountable to their commitments.
- Set fundraising requirement for your board members as a part of the organizational by-laws and stick to them.
- Provide them with materials so that they feel comfortable with the message and are armed with any back-up information they may need, including a basic statement about the mission and goals of the organization, a sample donor solicitation letter, an outline for a donor visit, talking points and FAQs, a simplified organizational budget and a receipt in the event that they are given a contribution.
- Offer them training or role-play a donor visit with them.

Say Thank You

Thanking donors is a critical element to a successful fundraising operation; you should have a formal thank you letter template and a system for sending them out in a timely manner. A successful fundraising operation capitalizes on every opportunity to communicate with donors and a thank you letter is another opportunity to share information about your work and to reiterate how important the donor is to your success.

A written thank you letter is an expected practice, and is usually considered the receipt for the gift; added extra personal touches can make donors feel appreciated and useful.

There is a saying, "thank before you bank." This is good advice; it demonstrates to the donor that you are organized and that their contribution is important. You should make the thank you letter a part of your check processing procedures to ensure that your thank you letters get in the mail quickly.

Thank you letters should be tailored to your fundraising tactics (major donors, direct mail, and/or phone canvass) and updated often to reflect the organizations priorities and programs. Each thank you letter should contain the following components:

- It should say thank you and tell the donor how you intend to use the gift.
- It should be topical, timely and reference your program(s).
- It should include the amount of the gift, particularly if it is being used as a receipt.
- If you are using it as a receipt, you should state that in the thank you letter.
- It should be hand-signed by the Head of the Organization (President, Executive Director), this demonstrates the contributions importance. Note: using an electronic signature, while easier, comes across as impersonal and cold.
- If possible, the letter signer should include a quick note of thanks (Example: Thanks so much for the support!) adding a personal touch to the thank you letter makes the donor feel appreciated and more connected to the organization.
- The thank you letter should include contact information and the organizations logo and address.

See the sample thank you letter included in this toolkit.

Ways to Raise Funds

The best fundraising plan brings in a wide range of givers by utilizing a number of different tactics, such as, major donor campaigns, direct mail, phones, email and other on-line tools and large and small events. This page will give you some basic information about different types of fundraising.

Individual Meetings with Major Donors

Major donors they will be a large focus of your fundraising effort. You will likely raise most of your revenue from one-on-one meetings with people who can give larger gifts and are already engaged in the issues you are working on. What constitutes a major donor depends on your organization and the base of individuals you can contact. For example a national organization might not consider someone to be a major donor until they are giving $2,000 or more where as a smaller state organizations threshold may start at $250.

Direct Mail

Fundraising by mail can be a good way to find new donors, keep current donors, and generate donations around specific events or campaigns. It is important to know that if the 501(c)(4) wants to use the list from the 501(c)(3) for direct mail, calls or email to prospective contributors then they must rent the list from the 501(c)(3) at fair market value. For more information on list use, see the section, Follow the Rules.

Acquiring New Donors

Efforts to acquire new donors by mail are expensive propositions that usually lose money or eat up a lot of staff time. However, they can generate new donors for the organization, so if the cost is not too high, it can make sense to spend some money and time on this activity.

For most new organizations a more realistic goal is to conduct some experiments with direct mail with the goal of adding a lower number of new donors in the beginning by mailing to the "lowest hanging fruit." This can give you a small base to build upon and some working knowledge of what's appealing to your donors.

Renewing Current Donors

Once you have a significant base of contributors renewing your donors by mail is an effective way to keep them contributing. If your list is small enough you can accomplish this "in-house" with volunteers. If your list is larger you may want to consider a "mail house" vendor.

Special Appeals

As a rule of thumb, it's okay to ask donors to give a second time during the year for a gift, beyond their annual gift – this is called a Special Appeal. These appeals tend to be topical, urgent and action oriented.

Applying for a Separate Non-profit Postal Permit

A 501(c)(4) may not use the postal permit of an affiliated 501(c)(3). Each organization must apply for and use its own separate nonprofit postal permit. To apply for a postal permit to mail at the special bulk third-class rates, the organization is required to file a Form 3624, "Application to Mail at Special Bulk Third Class Rates." The application is available at post offices and on the Alliance of Nonprofit Mailers' website. While the organization must pay first-class postage during the time the application is being reviewed, it may apply for a refund of the difference between the first- and third-class rates if the permit is granted.

For information on the registration, reporting and disclaimers required on direct mail, see the section, *Follow the Rules.*

Phones

A good phone canvass program can secure a surprising number of donations. The key is to start with a list is large enough to generate sufficient donations. Depending on the size of the call list, you can use volunteers to make the calls, which keeps your costs low. If you have access to a large list that has a record of producing a high number of donations, you may want to consider contracting a telemarketing firm.

When considering how to renew your current donors, some organizations look to their board members, staff and volunteers to hold volunteer calling sessions to donors, particularly those that give larger amounts. But it is important to note that it can be very hard to find many people with a knack for this type of calling.

Email, Social Media and Your Website

The internet holds exciting possibilities for your organization to communicate with donors, activists and the public, increase your advocacy efforts, and expand your base of supporters. And for established organizations, fundraising on the web holds great promise and new opportunities for donor acquisition. But new organizations should be cautious about how much they depend on email and social media to reach their fundraising goals. It can be very tempting for an organization to view its email network or social media sites as a way to raise quick, easy funds for your organization. But on-line fundraising is rarely quick or easy and is almost never the sole way that an organization raises income, particularly new organizations. In fact, unless you have a very large online following, email and social media should be viewed as tool in the toolbox for communicating with donors and the public, and as a way to reach out to potential donors, rather than as a fundraising strategy.

The two primary avenues for reaching people in the on-line world are email and social media sites like Facebook and Twitter. These two means of communication are very different from each other, both in the people they attract and in how they are used. Understanding these differences will help you determine how email and social media sites can best support the work of your organization and your fundraising efforts.

> **TIP**: It is good practice to include a donate button or link to your donation page in all on-line communications – including the signature line of your organizational emails.

Email

Your current donors and activists are your best audience for email communication; these are people who already know your organization, have told you they want to hear from you and have expressed their support for the mission of your organization. When writing to this audience, use a personal tone and speak directly to them. As with a letter to a friend, it should be addressed to them and written for them. You should view email communications as a way to deepen your connection to donors, provide information and build on an established relationship. You should always connect your fundraising emails to your advocacy work.

There are many reasons that people respond to emails and information on the web, but generally your email communications should always incorporate the following:

- Tell a story
- Be timely and topical

- Express a sense of urgency
- Connect the reader to other people, or society
- Provide a meaningful action – make the ask

Social Media

Social Media is just that, social. People go to sites like Facebook, and Twitter to connect to other people and to see what "folks like them" are interested in and thinking about. This makes social media sites a great way to meet new people who care about your issues.

The goal of a successful social media campaign is to promote your information among a network of followers who will share it. Social media postings are generally short ideas (you are limited to 140 characters on Twitter) that are topical, timely, urgent and often provocative. They are written to pique the interest of the reader so they will follow the link or go to a web site.

Social media communications can be hit or miss, being seen by a lot of people or none at all. Therefore to create a robust social media program you must post frequently if you want to be seen and have your message passed on (liked, re-tweeted, shared) to other people. While managing a social media program can be time consuming, it can yield many benefits in terms of raising the organization's profiles among potential donors. In order to be successful and keep people engaged, your social media presence should be constantly maintained, refreshed and new.

Utilizing Your Website

Your organizational communications, whether by mail, email, on invitations or through social media, should always include your website address. Your website is the fastest and easiest way to give your donors an up-to-date picture of the organization and what you are working on. And, if done properly, it is also the quickest and easiest way to give a contribution. When creating an organizational website you should give special attention to making it easy for a donor to give to your organization on-line, here are a few things to consider:

- Is there a "Donate" button that takes the donor directly to the donate page on the home page? Example: Donate! Join Now! Donate to (name of organization)
- Is the "Donate" button easy to find on the home page?
- Once on the donate page is it easy to understand and simple to use?
- Is the site linked to your credit card/bank account?
- Can the donor give monthly/quarterly gifts?
- Does it have the required information/disclaimers?
- When a contribution is made does the donor automatically receive a receipt?
- Is the donor's information secure and safe?
- Are you notified when a donation is made and can you easily track donations?
- Is the donor asked if he/she wants to receive other communications to that you can build your email list?

See the samples of 501(c)(4) organizational solicitation pages included in this toolkit.

What to Include on Your Donation Page

Logo: Your organization's logo should be large and at the top of the page.

Reason to Support: A short (one or two sentences) statement about the importance of giving to your organization. Examples: *Donate now to help us pass (fill in the blank). (Organization) has been fighting for xx for xx years, donate now and help us to continue protecting your (fill in the blank).*

Suggested Gift Amounts: Include pre-populated fields with 4 to 5 suggested gift amounts and one field so the donor can enter their own amount.

Gift Type: Include fields asking the donor if they would like to give on a continuing basis. Examples: I'd like to be a one-time giver. I'd like to give monthly. I'd like to be a quarterly donor.

Billing Information: Include: Title, Name, Address, Home Phone, Cell Phone and Email. Note Emails should be a required field so that you can automatically send them a receipt.

Payment Information: Include: Credit card type, credit card number, expiration date and security number.

Disclaimer: IRS regulations require that all solicitations must state that contributions to the 501(c)(4) are not tax deductible.

Contact Information: Include the organizations full name, address, phone, general email and website.

Optional Information:
** Would you like to be included in our mailing list? (This could be an opt-in or opt-out option depending your organizational policy.)
** May we send you information e-mails?
** If you would prefer to send us a check, please print out and complete this form. Make check payable to: Include address information
** Yes, you may share my name and mailing address with other charities. Allowing us to exchange your name helps us to grow our membership and better fight for add (issue).
** A thank you statement.

Events

While events often require a significant amount of staff or volunteer time, they can be worthwhile for reasons beyond merely fundraising. Events have secondary non-fundraising benefits, like raising the visibility of your organization, providing opportunities for supporters to meet each other and assembling a captive audiences for your message. There are many kinds of events, covering a wide range of activities.

- High and low-donor cocktail parties
- Picnics and other outdoor events
- Legislative receptions
- Silent or live auction
- Black-tie galas
- House parties

In order to raise money using any of the above methods you will need a clear plan, a budget, and staff or dedicated volunteers to get the job done.

If you are building your profile in your community you may want to hold a house party or small event to raise money. These kinds of events rarely raise large sums of revenue but they can be a way to build your name recognition, cultivate new donors and raise some money in the process.

Joint Fundraising with Connected Organizations

A 501(c)(3) and 501(c)(4) may also raise funds jointly. Each organization shouldpay its share of the fundraising costs. Therefore, if the solicitation raises funds for both organizations with relatively equal emphasis, the costs could be split 50/50 between the organizations. Another reasonable approach is to allocate the costs of the solicitation based on the ratio of receipts to each organization. Therefore, if the 501(c)(3) raises $60,000 and the 501(c)(4) raises $30,000 the costs of the solicitation could be divided two-thirds to the 501(c)(3) and one-third to the 501(c)(4).

Contributors may write two separate checks for the two organizations, or they may write one check and designate how the funds should be divided between the organizations. The 501(c)(4) may act, in effect, as the authorized agent of the 501(c)(3) to collect contributions in a joint fundraising solicitation. The 501(c)(4) may not exercise any control over the earmarked funds and may not spend or draw upon them for any reason. In joint fundraising situations a contract between the two organizations should set forth the terms – how costs will be allocated, including related expenses such as staff time and materials; what services the organization collecting the funds will perform; and the amounts the other organization will pay for these services.

Joint solicitations may make reference to the 501(c)(3) as an organization "related to" or "affiliated with" the 501(c)(4) and should discuss each organization's activities and to the extent possible distinguish between their programs. Contributors to the 501(c)(3) should be informed that contributions will be used to support research and nonpartisan studies about current issues or some other charitable purpose. Similarly, contributors should be informed that donations to the 501(c)(4) will support lobbying or other activities.

However, a 501(c)(4) soliciting funds expressly for political activities or its PAC generally should not do so in a communication that also requests funds for a 501(c)(3). The IRS has said that any joint fundraising will be carefully scrutinized to determine whether the 501(c)(3) is allowing its name or goodwill to be used to further an activity the 501(c)(3) is prohibited from conducting.

Follow the Rules

501(c)(4) organizations are governed by rules and regulations from the Internal Revenue Service, the Federal Election Commission and the equivalent entities at the state level, among others. There are reporting requirements and rules that must be followed; it is important to understand and be prepared to comply with them at all times. For information on the rules and regulations, please see AFJ's publication, The Connection: Strategies for Creating and Operating 501(c)(3)s, 501(c)(4)s and Political Organizations.

501(c)(4) Contributions Are Not Tax Deductible

501(c)(4) organizations are tax exempt but, unlike 501(c)(3)s, contributions to these organizations are not tax deductible as charitable contributions. Businesses may be able to receive a business deduction in certain limited circumstances. Additionally while contributions to public charities and political organizations are not subject to gift tax, donations by individuals to a 501(c)(4) in excess of $13,000 are not explicitly excluded. Although there has been uncertainty about the application of the gift tax to donations to 501(c)(4)s, the IRS announced in 2011 it is closing all gift-tax examinations of taxpayers who contributed to 501(c)(4)s and, while it studies the gift-tax issue, it will not open new examinations of gifts to 501(c)(4)s[1].

Establishing your 501(c)(4)

Federal tax law requires a 501(c)(4) organization to be created as a corporation, a trust, or an unincorporated association. To create your organization you should look to state law to determine what is required, because before filing any paperwork with the IRS, your organizing documents must comply with the state law in which you are incorporating.

To receive a letter of recognition from the IRS, a 501(c)(4) organization must file a [Form 1024](#) ("Application for Recognition of Exemption Under Section 501(a)"). Typically, an organization will receive either a determination letter or request for additional information from the IRS within 90 days of submission of Form 1024. For more information on the process, read our fact sheet, [Starting a 501(c)(4) Organization](#).

Filings and Reporting

Form SS-4

Even if your 501(c)(4) does not have any employees, it must have a separate Employer Identification Number (EIN) for banking and IRS filings. To request an EIN, the organization must complete IRS Form SS-4. You can apply for an EIN online, by telephone, by fax or by mail. The [form](#) and [instructions](#) can be found on the IRS website.

Form 990

While 501(c)(4) organizations must disclose information to the IRS about their donors who gave $5,000 or more during the calendar year on Schedule B of IRS Form 990, identifying information need not be publicly disclosed. Schedule B requires organizations to provide the name and address of the donor, the

---

[1] IRS memorandum, *Guidance for SB/SE Estate and Gift Tax and TE/GE Organizations, July 7, 2011*. The announcement states that the IRS will not require taxpayers to pay gift tax on contributions to section 501(c)(4) organizations until after the IRS provides adequate public notice that such contributions are taxable. Even then, the gift tax would apply only prospectively. The IRS is not stating conclusively that the gift tax either applies or does not apply to contributions to section 501(c)(4) organizations, but it is acknowledging that there has been little enforcement on this topic and that the gift tax involves complicated legal and policy issues.

aggregate contribution, and the type of contribution (cash, payroll, or noncash), and a description of any noncash property contributions. When complying with public disclosure requirements, however, organizations may redact the names and addresses of contributors, as well as any property descriptions that could identify the contributor.

> **NOTE**: Contributions earmarked for certain purposes such as ballot measure campaigns or federal or state independent expenditures may be reportable under federal or state disclosure laws. If a 501(c)(4) engages in electioneering communications under federal law it is required to disclose the identity of all contributors of $1,000 or more to the organization going back to January of the prior year unless a segregated account is used to pay for the electioneering communications. Federal and state laws vary on reporting contributions by an organization that is engaging in ballot measures, electioneering communications and independent expenditures. Therefore it is important to check these requirements before proceeding.

Notice Requirements and Proxy Tax

Although some members and contributors may, in some limited circumstances, deduct their dues and "similar amounts" paid to a 501(c)(4) organization as an ordinary and necessary business expense, the portion of dues that funds lobbying and political expenditures is not tax-deductible. Unless exempt from the requirements, a 501(c)(4) organization is required to alert its members and contributors about what percentage of dues and similar amounts, if any, will be spent on lobbying and political expenditures. If the organization fails to give this notice, or if it provides a notification that underestimates the percentage of dues used for these purposes, the IRS may impose a tax on the organization (often referred to as a "proxy tax) at the highest tax rate on the amount of its political and lobbying expenditures. If the organization elects to pay the proxy tax, no portion of the dues will be deemed nondeductible.

A 501(c)(4) is exempt from this notice requirement if 90 percent of all dues or similar amounts are received from:

- persons or entities paying $103 or less;
- IRC 501(c)(3) organizations, state or local governments, or entities whose income is exempt from tax under IRC 115; or
- nonbusiness sources and are, therefore, nondeductible in any event.[2]

Disclaimers for Fundraising Materials

The IRS regulations require that all membership and fundraising solicitation materials produced by a 501(c)(4) organization include mandatory language that meets the following requirements:

1) the statement must be at least the same size type as the primary message stated in the body of the letter,
2) it must be included on the message side of any card or tear off section that the contributor returns with the contribution, and
3) it must either be the first sentence in a paragraph or constitute a paragraph by itself.

> **SAMPLE**: Contributions to (enter your organization's name) are not tax-deductible.

You can supplement the mandatory disclaimer language to explain why contributions are not tax-deductible:

---

[2] Rev. Proc. 98-19, 1998-1 C.B. 547

Additional State Requirements

Although specifics vary, state statutes usually require nonprofit organizations to register with the state before they solicit the state's residents for contributions. The IRS provides a helpful resource with links to state government web sites with useful information for tax-exempt organizations.

Sharing, Trading and Buying Lists From a 501(c)(3) Organization

If a 501(c)(4) wants to use the list from an affiliated 501(c)(3) for direct mail, calls or email to prospective contributors or for any other purpose, the 501(c)(4) must rent the list from the 501(c)(3) at fair market value in an arm's-length transaction. It is advisable to have a letter of agreement to document the terms of the transaction and documentation as to its rental value. Alternatively, a 501(c)(4) and a 501(c)(3) could exchange (trade) names if both organizations have lists, or parts of lists, of equal value. It may also be possible to have each group share the costs of developing a list. In this case, the costs must be divided evenly or in some reasonable manner to avoid the 501(c)(3) paying any of the 501(c)(4)'s costs in the development or use.