

What's the Difference Between a 501(c)(3) and a 501(c)(4)?

- Having 501(c)(3) or 501(c)(4) status means an organization doesn't have to pay federal income taxes; this is known as tax exemption.
- 501(c)(3)s are the most common type—they're what most people think of when they think "nonprofit." Donations to 501(c)(3)s are tax-deductible.
- Increasingly, 501(c)(4) status is used by organizations that want to engage in partisan political work, which 501(c)(3)s can't do. Gifts to 501(c)(4)s aren't tax-deductible.

501(c)(3) and 501(c)(4) are legal tax-exempt statuses conferred on U.S. nonprofits by the IRS. 501(c)(3)s include both public charities (what you probably think of when you think "nonprofit") and [private foundations](#). 501(c)(4)s include things like homeowners and employee associations, civic leagues, local fire departments, and, increasingly, nonprofits that want to engage in political advocacy, like the National Rifle Association.

OK, so that's how the IRS defines them. But what's the real difference? And why does it matter?

The differences that really matter for readers are linked to levels of allowable political activity, deductibility and transparency. First, as long as it's not their primary activity, 501(c)(4)s can engage in political activities, including lobbying and partisan political work like endorsing or opposing candidates. By contrast, 501(c)(3)s can't—or can only engage in politics in certain ways, and to a limited extent. Second, whereas donations to 501(c)(3)s are usually tax-deductible, donations to 501(c)(4)s are usually not. Third, as long as politics is not their primary activity, a 501(c)(4) can spend money in the political arena, and doesn't have to disclose its donors' names. This has led to the rise of so-called "dark money" in U.S. politics.

But wait, how can c3s participate in politics?

One big difference is how much they can participate in politics. For a 501(c)(3) to defend any political activity, such as lobbying, it has to represent a very small share of what they do—like, 10 or 20% of their activities. As a result, most 501(c)(3)s opt-out of



any activity that could remotely be construed as political. 501(c)(4)s have a lot more leeway—political activity just has to represent less than 50% of their spending or activity.

To put it very simply, a 501(c)(3) can't publicly endorse or oppose a candidate or piece of legislation. They also can't make partisan public statements or give money to a political campaign. They can do a bit of lobbying, or activities like a (nonpartisan) voter-registration drive or get-out-the-vote efforts tied to specific issues, often in the form of voter education. But overall political activity has to represent an "insubstantial" amount of their overall activity (usually interpreted as under 10 or 20%).

A 501(c)(4), on the other hand, can make partisan statements, endorse candidates and specific pieces of legislation, move money to support political campaigns, and lobby—as long as all of their political activities don't amount to more than half of what they do.

Why do some groups have a 501(c)(3) and a 501(c)(4)?

You may have noticed that some groups have both a 501(c)(3) and a 501(c)(4) entity, usually with slightly different names. For instance, the ACLU Foundation is a 501(c)(3) and the ACLU is a 501(c)(4).

Under the c3, a group can do things like provide direct services to their constituents. Under the c4, they can engage in partisan political activity. Both sets of activities should serve their mission (whether it's to defend civil liberties or advance cancer research or something else), just in distinctly different ways.

P.S.

A 527 organization is a whole other story. These organizations exist for the specific purpose of influencing elections, and they have to disclose their donors.



You may also want to check out:

- What can—and can't—philanthropy do in terms of advocacy, policy, and politics?
- What is a private foundation?
- What is an LLC?

