

Tom Carson: Pros and Cons of Applying to Change from §501(c)(4) to §501(c)(3)

The most certain benefit for a League qualifying under §501(c)(3) would be the **benefits** to members (mostly for local Leagues) and donors because of the tax deductibility of membership dues and contributions to the League involved (again, except for contributions which are specifically designated by the donor to fund a lobbying expenditure, or to the extent the member or donor receive something of value in exchange for the dues or contribution). This can include in-kind contribution such as when members attend the LWVUS or state League conventions or councils and personally absorb some or all of the costs of attendance. Members/donors can currently receive tax deductions for contributions to a local League's Ed Fund at LWVUS or their state League, but those contributions cannot be used for a significant portion of a League's normal operating budget, including annual meetings, membership expenses and advocacy. Conversion allows deductibility for all funds needed to support a League's total budget.

It must be realized that the increase in the **individual standard deductions** under the recent Federal tax legislation (effective beginning in 2018) is likely to reduce the number of our members who will itemize deductions on their individual income tax returns. It is not clear how this change may impact the level of contributions to Leagues. It is certainly likely that most local and state Leagues will achieve some increase in contributions after a conversion, but it will be difficult to calculate how much because of all the different factors which impact on contributions levels from year to year. After all, for decades people made contributions to §501(c)(4) Leagues without tax deductibility. And deductibility is not likely to motivate a person to contribute if they are not interested in the League's mission, but larger contributors not infrequently look at the after-tax cost of contributions and adjust the amount of their contribution based on tax deductibility.

As a general matter, **agencies and foundations** often **only make grants** to §501(c)(3) organizations but not to other types of exempt organizations. So, conversion might give Leagues greater opportunities to obtain such grants if such are available in their communities. Further, some vendors (e.g., PayPal) give discounts to §501(c)(3) organizations but not other tax-exempt organizations; also, companies like Amazon have donation programs for such organizations.

Conversion will **reduce the workload for local and state League, as there will no longer be any need to have tax-deductible contributions be sent to an Ed Fund account** at either LWVUS or a state League, or to have to seek reimbursements sent back to a League. Additional workload reductions are possible for dual-entity Leagues which consolidate into one organization, with less work for boards of directors, nominating committees, budget committees, etc.

Concerns have been raised by some individuals that under §501(c)(3) Leagues would have to **stop all advocacy**; but, as discussed above, this is entirely erroneous. The actual limits on lobbying expenditures under this law are very unlikely to impact any League.

Concerns have also been raised that there is a **horrendous burden in bookkeeping** and governmental reporting; this also is entirely erroneous.

Questions have been raised about the **tax consequences** of a §501(c)(3) organization making large annual **Per Member Payments (PMPs)** to LWVUS, which is §501(c)(4), and most

state Leagues, which are also still §501(c)(4). The issue of PMPs, how they are calculated, how the recipients can and do use these funds, why they are considered exempt purpose expenditures for §501(c)(3) organizations, etc., were explored in extensive detail during the IRS' review of several California local League's applications to qualify under §501(c)(3). These issues were resolved favorably during these reviews, and the IRS approved these League's applications. See APPENDIX VI for a more detailed discussion of these issues.

Questions have been asked about whether a §501(c)(3) local League can pay its entire obligation for PMPs to LWVUS or state/regional Leagues, in light of the limits which are placed on payments of PMPs from Ed Funds or Ed Fund accounts by §501(c)(4) local Leagues. There are no problems at all for §501(c)(3) local Leagues, as is witnessed by the experience of all such Leagues beginning in 2011.

Finally, concerns have been raised about the possible burden of having to **send thank-you** letters to contributors to ensure tax deductibility. The IRS does require written confirmation of individual contributions of \$250 or more. However, it would be expected that any League would already be thanking persons making such a significant contribution, so there should be no incremental burden from converting to §501(c)(3). Many League write thank-you letters every year to every single contributor, no matter how small the amount.