

BACKGROUND INFORMATION ON 501C3 ORGANIZATIONS

“Tax exemption” as a 501c3 generally means:

- A. Eligible for exemption from state income taxes. In WI, organizations that are exempt from federal taxes under § 501c3 of the IRS Code are automatically exempt under WI law.
 1. Exemption from federal tax on the net income of the organization’s “related activities”
 - a. Unrelated business income is taxable
 - b. 501c3s pay the same employment taxes as other employers
 2. May be eligible for property tax exemption for real estate and personal property
 3. Exemption from WI sales taxes
- B. 501c3 organizations must be operated exclusively for “exempt purposes” (an educational, charitable, religious, or scientific purpose), which means:
 1. No political activity
 - a. Cannot promote, attack, support, or oppose a candidate for public office
 - b. Volunteers can be politically active as individuals but not on behalf of c3
 2. An “insubstantial” amount of lobbying
 - a. See Lobbying “Cheat Sheet” for details
 3. No enrichment of the organization’s insiders
 - a. Called “private inurement”
 - b. E.g., no “sweet deals” with directors or officers
 - c. Subject to “intermediate sanctions” penalties
 4. Must be operated for a public purpose, not for the enrichment of private parties
 - a. Can pay “fair and reasonable” amount for services or for a product but excessive pay is illegal
 - b. Can’t give away a 501c3’s services or assets (including its goodwill) to a for-profit without getting fair compensation
 5. Cannot operate for the “primary purpose” of conducting a trade or business that is not “related to its exempt purpose”
 - a. *Unrelated Business Income (“UBI”)* is income from a *trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose* that is the basis of the organization’s exemption (commonly referred to as the “exempt purpose)
 - b. Insubstantial amount of UBI is allowed, but if it is >15-20% of annual gross receipts, unrelated business should be done through a for-profit subsidiary
 - c. Unrelated business income is taxed at corporate income tax rate
 - i. Many exceptions and exemptions apply
- C. Contributions to 501c3s generally qualify donor for an income tax deduction
 1. Donors avoid capital gains taxes if donate appreciated property to 501c3
 - a. E.g., if donate stock, may take a tax deduction for fair market value of the stock on day of transfer and not recognize capital gain
 2. All donations >\$250 must be acknowledged in writing by organization