
501(c)(4) - Civic Leagues and Social Welfare Organizations

If your organization is not organized for profit and will be operated only to promote social welfare, you should file Form 1024 to apply for recognition of exemption from federal income tax under section 501(c)(4). The discussion that follows describes the information you must provide when applying. For application procedures, see chapter 1.

To qualify for exemption under section 501(c)(4), the organization's net earnings must be devoted only to charitable, educational, or recreational purposes. In addition, no part of the organization's net earnings may benefit any private shareholder or individual. If the organization provides an excess benefit to certain persons, an excise tax may be imposed. See *Excise tax on excess benefit transactions* under *Excess Benefit Transactions* in chapter 5 for more information about this tax.

Examples. Types of organizations that are considered to be social welfare organizations are civic associations and volunteer fire companies.

Nonprofit operation. You must submit evidence that your organization is organized and will be operated on a nonprofit basis. However, such evidence, including the fact that your organization is organized under a state law relating to nonprofit corporations, will not in itself establish a social welfare purpose.

Social welfare. To establish that your organization is organized exclusively to promote social welfare, you should submit evidence with your application showing that your organization will operate primarily to further (in some way) the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements).

An organization that restricts the use of its facilities to employees of selected corporations and their guests is primarily benefiting a private group rather than the community. It therefore does not qualify as a section 501(c)(4) organization. Similarly, an organization formed to represent member-tenants of an apartment complex does not qualify, since its activities benefit the member-tenants and not all tenants in the community. However, an organization formed to promote the legal rights of all tenants in a particular community may qualify under section 501(c)(4) as a social welfare organization.

Political activity. Promoting social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. However, if you submit proof that your organization is organized exclusively to promote social welfare, it may still obtain exemption even if it participates legally in some political activity on behalf of or in opposition to candidates for public office. See the discussion in chapter 2 under *Political Organization Income Tax Return*.

Social activity. If social activities will be the primary purpose of your organization, you should not file an application for exemption as a social welfare organization but should file for exemption as a social club described in section 501(c)(7).

Retirement benefit program. An organization established by its members that has as its primary activity providing supplemental retirement benefits to its members or death benefits to their beneficiaries does not qualify as an exempt social welfare organization. It may qualify under another paragraph of section 501(c) depending on all the facts.

However, a nonprofit association that is established, maintained, and funded by a local government to provide the only retirement benefits to a class of employees may qualify as a social welfare organization under section 501(c)(4).

Tax treatment of donations. Donations to volunteer fire companies are deductible on the donor's federal income tax return, but only if made for exclusively public purposes. Contributions to civic leagues or other section 501(c)(4) organizations generally are not deductible as charitable contributions for federal income tax purposes. They may be deductible as trade or business expenses, if ordinary and necessary in the conduct of the taxpayer's business. However, see *Deduction not allowed for dues used for political or legislative activities* under *501(c)(6) - Business Leagues, etc.* for more information.

Specific Organizations

The following information should be contained in the application form and accompanying statements of certain types of civic leagues or social welfare organizations.

Volunteer fire companies. If your organization wishes to obtain exemption as a volunteer fire company or similar organization, you should submit evidence that its members are actively engaged in fire fighting and similar disaster assistance, whether it actually owns the fire fighting equipment, and whether it provides any assistance for its members, such as death and medical benefits in case of injury to them.

If your organization does not have an independent social purpose, such as providing recreational facilities for members, it may be exempt under section 501(c)(3). In this event, your organization should file Form 1023.

Homeowners' associations. A membership organization formed by a real estate developer to own and maintain common green areas, streets, and sidewalks and to enforce covenants to preserve the appearance of the development should show that it is operated for the benefit of all the residents of the community. The term community generally refers to a geographical unit recognizable as a governmental subdivision, unit, or district thereof. Whether a particular association meets the requirement of benefiting a community depends on the facts and circumstances of each case. Even if an area represented by an association is not a community, the association can still qualify for exemption if its activities benefit a community.

The association should submit evidence that areas such as roadways and park land that it

owns and maintains are open to the general public and not just its own members. It also must show that it does not engage in exterior maintenance of private homes.

A homeowners' association that is not exempt under section 501(c)(4) and that is a condominium management association, a residential real estate management association, or a timeshare association generally may elect under the provisions of section 528 to receive certain tax benefits that, in effect, permit it to exclude its exempt function income from its gross income.

Other organizations. Other nonprofit organizations that qualify as social welfare organizations include:

- An organization operating an airport that is on land owned by a local government, which supervises the airport's operation, and that serves the general public in an area with no other airport,
- A community association that works to improve public services, housing and residential parking; publishes a free community newspaper; sponsors a community sports league, holiday programs and meetings; and contracts with a private security service to patrol the community,
- A community association devoted to preserving the community's traditions, architecture, and appearance by representing it before the local legislature and administrative agencies in zoning, traffic, and parking matters,
- An organization that tries to encourage industrial development and relieve unemployment in an area by making loans to businesses so they will relocate to the area, and
- An organization that holds an annual festival of regional customs and traditions.

501(c)(5)- Labor, Agricultural, and Horticultural Organizations

If you are a member of an organization that wants to obtain recognition of exemption from federal income tax as a labor, agricultural, or horticultural organization, you should submit an application on Form 1024. You must indicate in your application for exemption and accompanying statements that your organization will not have any net earnings benefiting any member. In addition, you should follow the procedure for obtaining recognition of exempt status described in chapter 1. Submit any additional information that may be required, as described in this section.

Tax treatment of donations. Contributions to labor, agricultural, and horticultural organizations are not deductible as charitable contributions on the donor's federal income tax return. However, such payments may be deductible as