

## **Definitions 501(c)(3) & 501(c)(6)**

### **What Is a 501(c)(3) Organization?**

A 501(c)(3) is a specific nonprofit organization that has been approved by the IRS to hold the status of a tax-exempt, charitable organization. The organization's exempt purpose is to promote the common business of its members. This portion of the US Internal Revenue Code allows for this designation specifically to public charities, private foundations, or private operating foundations. To further clarify: religious, scientific, educational, charitable, literary and testing for public safety, fostering national or international sports, or prevention of cruelty to animals and children are all purposes defined as "charitable" when qualifying for a 501(c)(3). This is regulated and administered by the US Department of Treasury through the IRS.

### **What Is a 501(c)(6) Organization?**

A 501(c)(6) is a business association that is designated and approved by the IRS to be exempt from paying income tax. Business associations under this designation may include chambers of commerce, business leagues, real estate boards, boards of trade, or professional football leagues. A 501(c)(6) organization is organized to promote business; however, they do not generate a profit or pay shares or dividends. This allows the organization to qualify as a 501(c)(6) under the US Internal Revenue Code.

## Which Exempt Designation Is Right for Your New Organization?

Here are some common differences to consider as you choose your designation:

<u>501(c)(3)</u>	<u>501(c)(6)</u>
Is for charitable, educational, religious, literary, or scientific purposes only.	Promotes a common business purpose and, in doing so, contributes to improving the industry's business conditions.
Advances the profession with respect to "educational" activities by including membership associations, such as professional societies, with this purpose.	A membership organization whose focus is to advance a common business interest such as a business league or industry trade association.
Does <b>not</b> participate in any lobbying or political activities. The IRS regulates this closely and will terminate the status of any organization found to have engaged in "substantial" lobbying activities.	Allows for a wide range of lobbying. However, the 501(c)(6) is required to disclose the percent of annual dues used for lobbying to its membership. This is to ensure members understand what portion of their dues are non-deductible for tax purposes.

In addition to the above, there are some advantages of the 501(c)(3) to consider, including:

- Eligibility to receive tax-deductible "charitable contributions" as well as gifts of property for enhanced fundraising advantages
- Eligibility to receive grants from many sources
- Eligibility to receive other state and local tax exemption such as sales tax