

501(c)(3) TRANSITION

How would it work for local Leagues?

By law, all businesses have a tax status; many nonprofit organizations are classified as either 501(c)(4) or 501(c)(3). Being “tax exempt” under either 501(c)(4) or 501(c)(3) means that a League is exempt from federal and state *income* taxes. However, a League will usually be subject to other taxes such as payroll, personal property, sales or use, etc.

What are the differences between 501(c)(3) and (c)(4)?

501(c)(3)	501(c)(4)
A public charity , organized for charitable or educational purposes.	A social welfare organization , organized for social welfare purposes.
Cannot support or oppose candidates for elected office and political parties.*	Can support or oppose candidates for elected office and political parties. *
Donations and member dues are deductible as long as nothing is received in return and donations are not specifically restricted for lobbying activities.	Donations and member dues are not deductible for donors or members.
Lobbying activities cannot be a substantial part of an organization’s activities.	Lobbying activities are not limited.

**This distinction is irrelevant because LWV internal rules prohibit this type of political activity.*

What status do most Leagues have?

A majority of Illinois local Leagues are currently 501(c)(4) organizations. Over the years, LWVUS and many state Leagues, including LWVIL, have formed a “sister” Education Fund which is qualified as tax exempt under 501(c)(3). LWVIL is currently pursuing 501(c)(3) status - but LWVIL’s status will not automatically transfer to local Leagues. **Each local League is responsible for determining its tax designation.** Recently, several local Leagues have decided to transition to 501(c)(3) status.

What are the advantages of converting to 501(c)(3)?

Less time spent on administration and better fundraising options means more time and money for the real work of the League.

Simplified Administration

After becoming a 501(c)(3) entity, local Leagues that previously maintained a separate account in the LWVIL Education Fund would gain more control over their funds and eliminate time spent on keeping two sets of books and coordinating with LWVIL.

Fundraising

Membership dues do not always cover all the expenses of a League's mission work. Being a 501(c)(3) opens up fundraising opportunities.

- Most grants are restricted to 501(c)(3) organizations
- Online donor tools (Amazon Smile, Facebook giving, etc) are limited to 501(c)(3) organizations
- Vendor discounts to nonprofits are generally limited to 501(c)(3) entities
- Donations and member dues are tax deductible for individuals who itemize
- Donations from donor-advised funds are limited to 501(c)(3) organizations

Will being a 501(c)(3) have an impact on a League's advocacy activities?

No. There are no restrictions on a 501(c)(3)'s advocacy activities. Only **lobbying** is restricted, and even those restrictions are not expected to have an impact on the League's activities.

What is the difference between advocacy and lobbying?

- Advocacy is **education about legislation**
- Lobbying is any attempt to **influence specific legislation**, including legislation that has been introduced OR proposed.

What are the limits on lobbying?

Lobbying cannot be a **substantial** part of a 501(c)(3) organization's activities. The definition of **substantial** is based on annual expenditures. No more than 20% of total expenses can be spent on lobbying, and within that, only 5% can be on grassroots lobbying. Expenses include things like printed materials: postcards, handouts, yard signs, buttons, etc. Volunteer time is UNLIMITED. *The lobbying restriction should not have a significant impact on the League, as most lobbying activities are performed by volunteers.*

There are two kinds of lobbying, direct and grassroots.

What is Direct Lobbying?

Direct lobbying is any attempt to influence specific legislation by communicating with a member or employee of a legislative body or a government official who may participate in the formulation of the legislation. The communication must do **BOTH** of these things:

- Refer to specific legislation (including legislation already introduced OR proposed)
- Reflect a view on that legislation (support or opposition)
- Note: Direct lobbying can include communication with voters about an item on a ballot (initiative, referendum, etc.), as the voters are considered to be “legislators” in that case.

Examples of Direct Lobbying

- League employees and volunteers contact several members of the legislature or their staff to seek support for the League’s position on a pending bill. NOTE: *If it is just a general position and there is no pending legislation, it is not lobbying.*
- LWVIL Lobby Day in Springfield/virtual. Volunteers spend the day urging legislators to support or oppose several pieces of legislation. Staff is heavily involved in organizing.
- The League drafts and prints a position letter, mentioning a pending bill. League members distribute copies of the bill to numerous legislators and their employees.
- The League urges voters to vote for a ballot referendum, such as the Fair Tax Amendment. Handouts, door hangers and yard signs are printed.

What is Grassroots Lobbying?

Grassroots lobbying is an attempt to influence legislation by affecting the opinions of the general public or any segment thereof (such as League members). The communication must do **ALL** of the following:

- Refer to specific legislation (including legislation already introduced OR proposed)
- Reflect a view on that legislation (support or opposition)
- Encourage the recipient of the communication to take action about the legislation.
 - Suggests contacting anyone who may participate in the formulation of the legislation
 - Provides contact information for a legislative body, legislator or employee
 - Provides a petition for the recipient to use in their communication
 - Identifies legislator(s) who will vote on or otherwise consider the legislation

Examples of Grassroots Lobbying

- A Time for Action email encouraging readers to contact legislators in support of legislation. Legislation is referred to by an informal name (ie: Voting Rights Act).
- Issues Briefing, in a session where a specific piece of legislation and action in support or opposition are called out.

What are some examples of Advocacy?

If a communication does not meet the specifications for direct lobbying or grassroots lobbying, then it is simply advocacy, and is not subject to the expenditure restrictions. Examples include:

- Communicating with a legislator about a particular topic position, without specific legislation (climate change, gun violence prevention)
- Communicating about non-legislative items (opposing addition of citizenship question on the census)

How do members authorize a League to proceed with the conversion?

Step 1: The Board of Directors propose the conversion to 501(c)(3) status to the membership.

Step 2: Members vote to amend the League’s bylaws (and Articles of Incorporation, if applicable) at the Annual Meeting to provide language required by the IRS to obtain 501(c)(3) status.

Step 3: If applicable, members vote to amend the League’s Articles of Incorporation.

What will a local League Board do assuming such an “aye” vote?

The local League Board will work with the League of Women Voters of Illinois and its legal advisors to prepare and submit the necessary filings to obtain 501(c)(3) status.

What are the costs for converting to 501(c)(3)?

Filing	Cost
Amendment of Articles of Inc. with IL Secretary of State (if applicable) - <i>Most local leagues are unincorporated and this step is N/A.</i>	\$50
501(c)(3) Entity Filing Fee with IL Attorney General	\$15 - \$200+ [AG has been charging a late fee to Leagues that have been in existence for more than a few months before making the registration filing]
1023 application fee to the Internal Revenue Service (IRS)	\$600
Annual Report Filing Fee with IL Attorney General *This is the only recurring fee.	\$15 \$100 (late fee) \$0 (if revenues are under \$25k)

What should a League know about incorporation?

Incorporation is not required for the IRS to grant 501(c)(3) status to a local League. Most local Leagues are not incorporated.

In addition to the initial incorporation filings, the Illinois Secretary of State's office requires incorporated Leagues to file and pay fees every year. These annual filings are not difficult, but making them on time is an administrative task that Leagues have to manage. Fees, while nominal, can add up over time.

Incorporating provides limited liability protections for actions taken by members. However, LWVIL already provides liability insurance for members of all local Leagues.

Fees for 501(c)(3) transition can potentially be reduced if an unincorporated League decides to incorporate at the same time as it makes the transition. Local Leagues considering this option should contact the LWVIL 501(c)(3) Transition committee for assistance, 501c3@lwwil.org.

Does every 501(c)(3) League qualify for the Illinois Sales Tax Exemption?

Sales tax exemptions are independent of 501(c)(3) status. In recent years, the Illinois Department of Revenue has been less likely to grant sales tax exemptions to charitable organizations unless they are not directly involved with school education and/or provide charitable benefits to disadvantaged populations.

It is unlikely that local Leagues will qualify for the state sales tax exemption. If a local League wishes to apply, our Katten legal advisors are willing to assist.

Can local Leagues use the LWVILEF Sales Tax Exemption?

No. It is illegal for the LWVILEF to share its sales tax exemption status with another League and LWVILEF could lose its sales tax exemption by doing so.

PLEASE REMEMBER:

Every League is unique and is **STRONGLY** encouraged to contact the LWVIL 501(c)(3) Transition committee for guidance and advice. 501c3@lwwil.org