

Exemption Comparison Chart

By Gabrielle Lessard

2008

501(c)(3) – Public Charity	501(c)(4) – Social Welfare Organization	501(c)(6) – Business Leagues and Associations
<p>Must be organized and operated exclusively for charitable purposes. These include:</p> <ul style="list-style-type: none"> · Education · Historic preservation · Combating community deterioration · Lessening neighborhood tensions · Reducing the burdens of government · Eliminating prejudice and discrimination · Relief of the poor and distressed <p>"Relief of the poor and distressed" includes community development assistance that:</p> <ul style="list-style-type: none"> · Has noncommercial terms and the ability to revitalize a disadvantaged area; and · Provides a nexus between the assistance provided and the relief of problems in a disadvantaged area 	<p>Must operate primarily to further the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements). Includes:</p> <ul style="list-style-type: none"> · Community associations that work to improve community services, housing and residential parking · Community organizations that combat unemployment and promote economic development by making loans to attract businesses · Community organizations that preserve a community's traditions, architecture and appearance by representing it before local government in zoning, traffic and parking matters · Homeowners associations · Volunteer fire companies 	<p>Must operate primarily to promote common business interests or general business conditions. May not be organized to engage in an activity ordinarily carried on for profit. Includes:</p> <ul style="list-style-type: none"> · Business leagues (e.g. trade/professional associations) · Chambers of commerce · Real-estate boards · Boards of trade · Trade associations
<p>No private benefit; exemption can be denied if membership or services are not open to all. No part of net earnings may inure to the benefit of any private shareholder or individual.</p>	<p>Services may be provided to members only if they benefit the entire community. No part of net earnings may inure to the benefit of any private shareholder or individual.</p>	<p>Services provided to members must benefit the industry or community as a whole. No part of net earnings may inure to the benefit of any private shareholder or individual.</p>
<p>Contributions are tax-deductible; able to receive Foundation grants.</p>	<p>Contributions (except to volunteer fire companies) are not tax-deductible as charitable donations, but may qualify as deductible business expenses. If ordinary & necessary expenses in the course of business.</p>	<p>Contributions are not tax-deductible as charitable donations. Contributions by members are tax-deductible as business expenses, except for any portion used in lobbying or political activities.</p>

501(c)(3) – Public Charity	501(c)(4) – Social Welfare Organization	501(c)(6) – Business Leagues and Associations
Receives financial support from broad public sources.	No public support test.	Membership support (dues and involvement in activities) must be at a meaningful level.
Only insubstantial lobbying permitted, no direct or indirect involvement in campaign for public office.	May lobby as primary activity; may engage in campaigns for public office if not a primary activity.	May lobby as its primary activity; may engage in campaigns for public office if not a primary activity.
<i>Precedents:</i>	<i>Precedents:</i>	<i>Precedents:</i>
An organization organized for the beautification of an entire city qualifies for exemption under 501(c)(3). <i>Rev. Rul. 68-14</i>	An organization with membership limited to the residents and business operators within a city block that was formed to preserve and beautify the public areas in the block does not qualify for exemption under 501(c)(3) because "the restricted nature of membership and the limited area in which its improvements are made" results in private benefit, but it qualifies under 501(c)(4). <i>Rev. Rul. 75-286</i>	Association of nonprofit consumer cooperatives that promote the cooperative business method may qualify as a business league. Ex: M is a national organization representing the interests of organizations and associations across all sectors of the economy. While M's members are engaged in many different businesses, they share the common interest of expanding their businesses in an M way. "M's membership includes businesses in the fields of housing, health care, finance, insurance, childcare, agricultural marketing and supply, rural utilities, purchasing and consumer goods and services, as well as M organization's associations." M promotes voluntary and open membership; democratic member control; member economic participation; ... education, training, and information; cooperation among M organizations; the M way of doing business..." <i>Rev. Rul 67-264</i>
An organization with membership open to any member of a community, formed to improve conditions in the community by identifying problems and encouraging their resolution by community members, qualifies for 501(c)(3) status as an organization combating community deterioration even though the community was not presently in a state of decline . The organization's activities included encouraging owners to repair and improve property, encouraging realtors to use nondiscriminatory sales practices, providing general information on combating housing deterioration and sponsoring alley clean-up campaigns. <i>Rev. Ru1.76-147</i>	An organization that carries on activities in the general areas of public safety and crime prevention, housing and community development, recreation and community service is exempt under 501(c)(4). <i>Rev. Rul. 75-386</i>	Members of a state medical association formed an organization to operate peer review boards. Its primary purpose of establishing and maintaining standards of quality, quantity, and reasonableness of costs of medical services serve to maintain the professional stands, prestige, and independence of the medical profession and thereby further the common business interest of the organization's members. <i>Rev. Rul. 74-553</i>
An organization that provides financing to businesses and entrepreneurs located in depressed areas of a city, who are unable to obtain funds from conventional sources (and many of whom are minority business owners), qualifies for 501(c)(3) status as an organization combating community deterioration, lessening neighborhood tensions and reducing prejudice. <i>Rev. Rul. 74-587</i>	Compare <i>Rev. Rul. 77-273</i> : An organization that provides security services for residents and property owners of a particular community, who pay an hourly rate, is carrying on a business and does not qualify for exemption under Section 501(c)(4).	Organization of business professionals may qualify for exemption where its activities are limited to
<i>Compare Rev. Rul. 77-111</i> : Two organizations were found not to qualify for 501(c)(3) status. Org. 1's purpose was to increase business patronage in	An organization whose membership is open to the community and that provides free parking to anyone who visits the downtown business district is contributing to civic betterment by relieving congested parking conditions and qualifies for exemption under 501(c)(4).	
	A junior chamber of commerce operated exclusively for the purpose of rendering civic	

501(c)(3) – Public Charity

a deteriorated area through radio and TV ads, a speakers bureau comprised of local business people, operating a telephone service providing info to potential shoppers and informing the media about the area. The IRS found that the overall purpose of its activities was to promote business, as compared to the charitable purposes of the organization in *Rev Rul. 74-587*.

Org. 2's purpose is to revive retail sales in an area suffering from continued economic decline by constructing a retail center. The IRS found that major benefits would accrue to the businesses locating with the retail center and the organization did not limit its activities to businesses owned by minorities or that would only locate to the area because of the retail center.

501(c)(4) – Social Welfare Organization

services, including youth activities and community leadership training, qualifies as a 501(c)(4). *Rev. Rul. 65-195*.

501(c)(6) – Business Leagues and Associations

holding luncheon meetings devoted to discussion, review, and consideration of problems in a particular industry, and are directed to the improvement of business conditions as a whole. *Rev. Rul. 67-295*

Non-profit non-stock corporation that insured credit unions is exempt because its activities were aimed at improving business conditions in the credit union industry as a whole. Credit Union Ins. Corp. v. U.S., 86 F3d 1326 (MD 1995).

Compare: Nonprofit trade association of manufacturers whose principal activity is promotion of its members' products under association's registered trademark does not qualify for business league exemption when trademark is promoted in manner intended to give its members competitive advantage over others in same industry. *Rev Rul. 70-80* (1970)