

## American Library Association Tax Status (Appendix A)

### Basic Rules

The Internal Revenue Code grants tax-exempt status to non-profit organizations in more than 20 categories under Section 501(c). Depending on its category of tax-exemption, a non-profit organization may be permitted to, or prohibited from, engaging in various activities. The rules for the most common types of tax-exemptions are outlined below.

#### Section 501(c)(3) Organizations.

Section 501(c)(3) is the public benefit category, and permitted purposes for organizations in this category include: charitable, educational, and literary.

##### A. Permitted Activities.

- As a 501(c)(3), ALA may use its funds for charity, education, and the promotion of literature and related administrative costs.
- Charitable activities include promoting literacy, distributing scholarships, improving public libraries.
- Educational activities include publications, seminars, conferences.
- Literary activities include promoting books and authors, providing forums for discussions of literary topics

##### B. Limitations on 501(c)(3)s.

- As a 501(c)(3), any activities which are not charitable, educational, or literary must be insubstantial, i.e., short-term or limited in nature.
- ALA may engage in lobbying up to \$1 million. Lobbying is the support of or opposition to legislation.
- All political activity is prohibited. Political activity is the support of or opposition to candidates for public office.
- Transfer of funds to organizations in different tax-exemption categories is prohibited, unless the transfer furthers a charitable, educational, or literary purpose, or constitutes a loan at market rates of interest.

C. Samples of Other 501(c)(3)s.

- American College of Surgeons
- American Psychological Association
- National PTA
- United Way
- Arthritis Foundation

**Section 501(c)(5) Organizations.**

Section 501(c)(5) organizations include labor, agricultural, and horticultural organizations.

The IRS regulations state that organizations are eligible for this category if their purposes are for the betterment of conditions of those engaged in labor, agriculture, or horticulture, the improvement of the grade of their products, and the development of a higher degree of efficiency in their occupations.

A. Permitted Activities.

- Organizing and operating labor unions.
- Organizing employee committees operating within businesses.
- Conducting animal and plant research.
- Promoting farm clubs.

B. Examples.

- International Brotherhood of Teamsters
- American Federation of State, County and Municipal Employees
- Aberdeen Angus Breeders Association

**Section 501(c)(6) Organizations.**

Organizations exempt under this category include: business leagues, chambers of commerce, real estate boards, and boards of trade.

The IRS regulations state that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interests. Its activities should be directed to the improvement of business conditions in one or more lines of business.

A. Permitted Activities.

- Promotion of professional activities includes certification of individual credentials, advertising (e.g., “See your dentist today.”), assisting professionals to earn higher salaries.
- Trade association activities include advertising products (“Got milk?”), helping businesses earn more profit.
- A 501(c)(6) may engage in unlimited lobbying.
- A 501(c)(6) may engage in political activity, but must pay a 35% excise tax on the total amount of its direct political expenditures.
- A 501(c)(6) may engage in the same types of charitable, educational, and literary activities permitted for a 501(c)(3).

B. Examples.

- American Bar Association
- American Medical Association
- Independent Insurance Agents of America
- Spring Manufacturers Association
- Northwest Association of Realtors

## How Can a 501(c)(3) Promote Activities Outside of its Tax Category.

### A. Limited Basis.

- IRS regulations require that a 501(c)(3) devote its activities “exclusively” to charitable, educational, literary, or other permitted purposes.
- The IRS has traditionally allowed some limited leeway for 501(c)(3)s to engage in “an insubstantial” amount of non-(c)(3) activity, such as occasional articles or seminars which promote a profession, rather than educate.
- This limited exception is not available for activities which are intended to be sustained over a long period of time and which require the allocation of resources, such as certification activities for individuals or the establishment of a union.

### B. Use of a Companion Organization.

- A 501(c)(3) can cause the establishment of a separate 501(c)(5) or a 501(c)(6) to carry out non-(c)(3) purposes.
- The 501(c)(3) may not transfer funds to the other organization, but it can loan funds, which can be repaid when the other organization is operational.
- The other organization may have its own cash flow to support its activities. It can charge dues, put on educational programs, solicit contributions, etc.
- The 501(c)(3) may control the other organization through overlapping board members or by requiring appointment of the other board members by the board of the 501(c)(3).