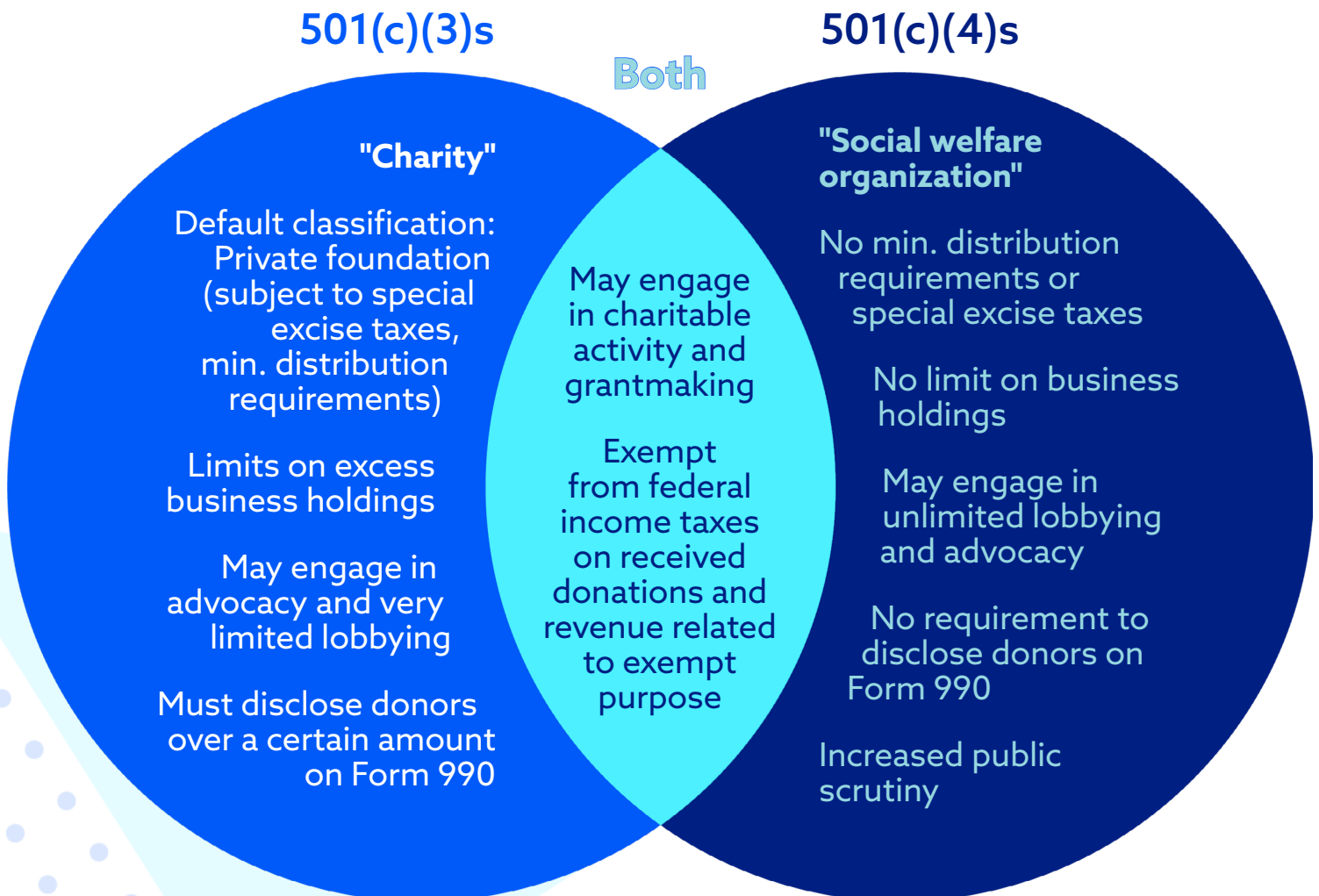


Comparing 501(c)3 and 501(c)4 Organizations

In 2022, the clothing brand Patagonia transferred all the company's non-voting shares to a 501(c)(4) organization called the Holdfast Collective. This transfer comes at a time when 501(c)(4) organizations are being used more frequently and garnering more attention from the philanthropic sector.

But what exactly is a 501(c)(4)? And how does it really differ from a 501(c)(3)?

While a 501(c)(4) is classified as a nonprofit organization, it is not a charity. The Internal Revenue Code (IRC) describes 501(c)(4) organizations as "social welfare" organizations that are operated exclusively for the promotion of social welfare within the meaning of IRC section 501(c)(4). Although 501(c)(4) organizations can and frequently do engage in charitable projects and grantmaking, they are not required to be organized and operated for exclusively charitable purposes, unlike 501(c)(3) organizations.



What does the IRS define as “charitable?”

To receive tax-exemption under 501(c)(3), organizations must be organized and operated exclusively for exempt purposes, which are outlined in section 501(c)(3) as:

- Charitable
- Religious
- Scientific
- Preventing cruelty to children
- Educational
- Literary
- "Testing for public safety"
- Fostering national or international amateur sports competition

"Charitable" is generally understood to include relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency. By default, charitable organizations are classified as "private foundations," subjecting them to special excise tax requirements unless they pass the public support test or are classified as a school, church, hospital, or supporting organization.

How are 501(c)(4)s different?

Not only are 501(c)(4) organizations not subject to the excise taxes that regulate private foundations, but they also have no minimum distribution requirement, no limitation on excess business holdings, and, unlike 501(c)(3)s, may engage in grantmaking to foreign charities without extra steps. 501(c)(4)s may also engage in lobbying without limitation and have no requirement to disclose donor names to the public or the IRS, regardless of the donation amount. While 501(c)(4)s are subject to fewer restrictions than 501(c)(3)s around grantmaking and operations, they are also subject to heightened scrutiny and concerns about "dark money."

So while 501(c)(4)s may engage in charitable activities, they are "social welfare organizations" rather than "charities." And because they are not subject to the same legal scrutiny as 501(c)(3)s when it comes to donations, minimum distribution requirements, excess business holdings, or lobbying – among other things – they receive far more public scrutiny and attention than 501(c)(3)s.

Learn More

For more information, visit cof.org or contact the Council on Foundations' Government Affairs and Legal Resources Team at govt@cof.org.

More Information

Visit <https://cof.org/c3VSc4> or use the QR code below to check out additional resources:

Council on Foundations: Nonprofit Political Activity; A Guide to Advocacy, Lobbying & Election Related Activity
(publication)

Internal Revenue Service: Exemption Requirements for 501(c)(3) Organizations; Social Welfare Organizations

