



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-129874

June 19, 1996

The Honorable William S. Cohen
Chairman
The Honorable Carl Levin
Ranking Minority Member
Subcommittee on Oversight of Government
Management and the District of Columbia
Committee on Governmental Affairs
United States Senate

This is in response to your letter of February 3, 1996, requesting information on lobbying expenses reported by 501(c)(3) tax-exempt organizations, commonly known as charitable organizations. Specifically, you requested data on grassroots lobbying expenses of these tax-exempt organizations to the extent that such information was available.

As you know, the Internal Revenue Service (IRS) defines grassroots lobbying as any attempt to influence any legislation through an effort to affect the opinions of the general public or any segment thereof. A grassroots lobbying communication must also encourage the recipient to take action with respect to the legislation. IRS defines direct lobbying as any attempt to influence any legislation through communication with any member or employee of a legislative body or with any government official or employee who may participate in the formulation of legislation.

Charitable organizations do not report grassroots lobbying expenditures separately unless they elect to subject themselves to specific dollar limitations under 501(h) of the Internal Revenue Code. Also, churches, integrated auxiliaries of churches, and conventions or associations of churches are not required to file tax returns. Consequently, data presented here understate total grassroots lobbying expenditures of tax-exempt organizations.

RESULTS IN BRIEF

Information we obtained from IRS showed that, of the 414,796 returns filed most recently (in either tax year 1993 or 1994) by tax-exempt organizations (excluding private foundations) and processed by IRS through 1995, 174,260 returns were filed

by charitable organizations having 501(c)(3) status. Of these 174,260 returns, 1,101, or less than 1 percent, elected the 501(h) provision and reported lobbying expenses for tax years 1993 or 1994. These organizations reported lobbying expenses totaling \$43.3 million, of which \$8.3 million, or 19 percent, pertained to grassroots lobbying.

BACKGROUND

Charitable tax-exempt organizations include entities organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes; for the prevention of cruelty to children or animals; or to foster amateur sports.

Charitable organizations (other than private foundations) having gross receipts in excess of \$25,000 are generally required to file a Form 990 information return, entitled "Return of Organization Exempt From Income Tax," with IRS. These organizations are also required to report any lobbying expenses incurred during each tax year on Schedule A of Form 990, but they are not required to identify the type of lobbying activities that was funded. Also, the requirement to file a Form 990 does not apply to churches, integrated auxiliaries of churches, and conventions or associations of churches. Form 990 is publicly available information.

Under current law, any lobbying carried out by charitable organizations may not constitute a substantial portion of their total activities, but the term "substantial" has not been clearly defined by Congress or IRS. However, such organizations may elect to be governed by fixed dollar guidelines with regard to lobbying expenses under 501(h) rather than attempt to determine what constitutes a substantial part of their activities.

Organizations electing 501(h) are required to report both grassroots and direct lobbying expenses on Part VI-A of Schedule A of Form 990 and fall under a sliding scale of permissible lobbying nontaxable amounts. The maximum nontaxable amount any 501(c)(3) organization can spend on lobbying activities is \$1,000,000, and the maximum nontaxable amount it can spend on grassroots lobbying activities is \$250,000. Any electing organization that normally exceeds either its lobbying or grassroots lobbying expenditure limit by 150 percent each year, averaged over 4 years, is to lose its exemption.

DATA ON LOBBYING EXPENSES

We obtained tax return data from IRS' Business Master File of Exempt Organizations containing information on the most recently filed returns by tax-exempt organizations—covering tax years 1992 through 1994—processed by IRS

during calendar year 1995.¹ We limited our analysis to returns filed for tax years 1993 and 1994, of which there were 174,250.

We identified 1,101 returns from 501(c)(3) organizations that elected the 501(h) provision and reported lobbying expenses—621 from the tax year ending in 1994 and 480 from 1993. Table 1 shows a breakdown of information we obtained.

Table 1: Reported Grassroots and Direct Lobbying Expenses of 501(c)(3) Tax-Exempt Organizations Indicating 501 (h) Election for Tax Years 1993 or 1994

Percentage of total attributed to grassroots lobbying expenses	Number of tax returns	Grassroots lobbying expenses	Direct lobbying expenses	Total lobbying expenses
100%	148	\$2,133,745	\$0	\$2,133,745
80 <100	23	415,386	45,179	460,565
60 <80	53	1,143,274	504,039	1,647,313
40 <60	88	2,424,460	2,554,949	4,979,409
20 <40	81	1,399,517	3,357,416	4,756,933
>0 <20	136	822,200	8,743,652	9,565,852
0	572	0	19,738,930	19,738,930
Average: 19.3%	1,101	\$8,338,582	\$34,944,165	\$43,282,747

Note: This table reflects only the most recently filed tax returns for tax years 1993 or 1994 for 501(c)(3) organizations that were processed by IRS during calendar year 1995. Thus, for organizations that filed tax returns for tax years 1993 and 1994 that IRS processed during 1995, only the return for tax year 1994 is included. If no return for 1994 was filed, the 1993 return is included. The table does not include data for 501(c)(3) organizations whose most recent return was for tax year 1992.

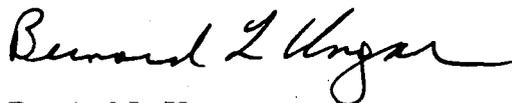
Source: Analysis of IRS Business Master File of Exempt Organizations.

These returns represent only those 501(c)(3) organizations that elected the 501(h) lobbying limitation provision and reported lobbying expenditures.

¹Neither we nor IRS verified the accuracy of the data tapes we received. According to IRS officials, they were generally aware of some errors in data extracted from the Business Master File of Exempt Organizations. However, these officials believed that these data could be used to provide an indication of lobbying expenses reported under the 501(h) provision.

In June 1996, we provided draft copies of this letter to IRS for review and comment. The directors of IRS' concerned divisions—Legislative Affairs, Exempt Organizations, and Statistics of Income—indicated general agreement with the information presented in the draft. The Director of the Statistics of Income Division suggested changes, which we incorporated, to further clarify the number of 501(c)(3) organizations listed on the three computer tapes we received.

As agreed with your office, we plan no further distribution of this letter until 30 days from the date of issuance, unless you publicly release its contents earlier. Copies will then be made available to others upon request. If you have any questions, please call me at (202) 512-4232.



Bernard L. Ungar
Associate Director
Federal Workforce and Management Issues

(410025)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.**

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested