

SEC. 527. POLITICAL ORGANIZATIONS.

(a) General rule

A political organization shall be subject to taxation under this subtitle only to the extent provided in this section. A political organization shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

(b) Tax imposed

(1) In general

A tax is hereby imposed for each taxable year on the political organization taxable income of every political organization. Such tax shall be computed by multiplying the political organization taxable income by the highest rate of tax specified in section 11(b).

(2) Alternative tax in case of capital gains

If for any taxable year any political organization has a net capital gain, then, in lieu of the tax imposed by paragraph (1), there is hereby imposed a tax (if such a tax is less than the tax imposed by paragraph (1)) which shall consist of the sum of—

(A) a partial tax, computed as provided by paragraph (1), on the political organization taxable income determined by reducing such income by the amount of such gain, and

(B) an amount determined as provided in section 1201(a) on such gain.

(c) Political organization taxable income defined

(1) Taxable income defined

For purposes of this section, the political organization taxable income of any organization for any taxable year is an amount equal to the excess (if any) of—

(A) the gross income for the taxable year (excluding any political function income), over

(B) the deductions allowed by this chapter which are directly connected with the production of the gross income (excluding political function income), computed with the modifications provided in paragraph (2).

(2) Modifications

For purposes of this subsection—

(A) there shall be allowed a specific deduction of \$1,000,

(B) no net operating loss deduction shall be allowed under section 172, and

(C) no deduction shall be allowed under part VIII of subchapter B (relating to special deductions for corporations).

(3) Political function income

For purposes of this subsection, the term “political function income” means any amount received as—

(A) a contribution of money or other property,

(B) membership dues, a membership fee or assessment from a member of the political organization,

Gregory L. Colvin 6/8/13 2:18 PM

Deleted: exempt

Gregory L. Colvin 6/8/13 2:18 PM

Deleted: exempt

Gregory L. Colvin 5/6/14 12:43 PM

Comment: This amount has not been increased in almost forty years. Rather than indexing it, though, it seemed better to match the \$1000 deduction allowed under IRC 512(b)(12) for the unrelated business taxable income of 501(c) entities.

Gregory L. Colvin 7/8/13 1:45 PM

Deleted: 100

Gregory L. Colvin 5/6/14 12:43 PM

Comment: For years, it has been annoying and confusing to call this “exempt function,” especially as to the 527(f) tax paid by 501(c) groups on their “exempt function expenditures.” Using “political” instead will clear this up.

Gregory L. Colvin 6/8/13 2:18 PM

Deleted: Exempt

Gregory L. Colvin 6/8/13 2:18 PM

Deleted: exempt

(C)proceeds from a political fundraising or entertainment event, or proceeds from the sale of political campaign materials, which are not received in the ordinary course of any trade or business, or

(D)proceeds from the conducting of any bingo game (as defined in section [513\(f\)\(2\)](#)).

**(d) Certain uses not treated as income to candidate**

For purposes of this title, if any political organization—

(1)contributes any amount to or for the use of any political organization which is treated as exempt from tax under subsection (a) of this section,

(2)contributes any amount to or for the use of any organization described in paragraph (1) or (2) of section [509\(a\)](#) which is exempt from tax under section [501\(a\)](#), or

(3)deposits any amount in the general fund of the Treasury or in the general fund of any State or local government,

such amount shall be treated as an amount not diverted for the personal use of the candidate or any other person. No deduction shall be allowed under this title for the contribution or deposit of any amount described in the preceding sentence.

**(e) Other definitions**

For purposes of this section—

**(1) Political organization**

The term “political organization” means a party, committee, association, fund, or other organization (whether or not incorporated) organized and operated primarily for the purpose of directly or indirectly accepting contributions or making expenditures, or both, for a ~~political function, or which would be exempt from tax under section 501(a) but for its level of political function activities.~~

**(2) Political function**

The term “~~political function~~” means the function of ~~participating in, or intervening in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.~~ ~~For the purpose of this section only, such term also includes the making of expenditures relating to an office described in the preceding sentence which, if incurred by the individual, would be allowable as a deduction under section [162\(a\)](#), and influencing or attempting to influence the selection, nomination, election, or appointment of any individual to office in a political organization.~~

**(3) Contributions**

The term “contributions” has the meaning given to such term by section [271\(b\)\(2\)](#).

**(4) Expenditures**

The term “expenditures” has the meaning given to such term by section [271\(b\)\(3\)](#).

**(5) Qualified State or local political organization**

**(A) In general**

The term “qualified State or local political organization” means a political organization—

Gregory L. Colvin 5/6/14 12:43 PM

**Comment:** We don't see any need to keep the segregation requirement. It has just led to the interpretation that the 527 exemption is not available if the entity is merely “primarily” political—it has to be all but “insubstantially” political, leading to the supposed limit of 15% or so on non-political activity. Thus, being 51% political would allow the organization to claim 527 status, closing the present “gap” between 501(c) and 527 exemption qualifications.

Gregory L. Colvin 6/8/13 2:21 PM

**Deleted:** , -  
to the extent such amount is segregated for use only for the exempt function of the political organization

Gregory L. Colvin 6/10/13 6:53 AM

**Deleted:** n

Gregory L. Colvin 6/8/13 2:19 PM

**Deleted:** exempt

Gregory L. Colvin 5/6/14 12:43 PM

**Comment:** This would also eliminate the current “gap” in the IRC exemption coverage, where political activity is primary (51%) but non-political activity must be no more than insubstantial (15%) due to the segregation rule in 527(c)(3). And, if a “silver bullet” reduces the upper limit on 501(c) political activity to, say, 10%, then this would allow an organization with anything over 11% to come under the 527 exempt status.

Gregory L. Colvin 6/8/13 2:19 PM

**Deleted:** Exempt

Gregory L. Colvin 6/8/13 2:19 PM

**Deleted:** exempt

Gregory L. Colvin 5/6/14 12:43 PM

**Comment:** This aligns the 527 political function definition with the 501(c)(3) language, so that the divergent elements--appointments, party offices, etc.—would be eliminated.

Gregory L. Colvin 6/8/13 2:23 PM

**Deleted:** influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any Federal, State, or local public office or office in a political organization, or the election of Presidential or Vice-Presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed

Ezra W. Reese 5/6/14 12:20 PM

**Deleted:** Ss

(i) all the political functions of which are solely for the purposes of participating in, or intervening in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for State or local public office or office in a State or local political organization,

Gregory L. Colvin 6/8/13 2:19 PM

**Deleted:** exempt

(ii) which is subject to State law that requires the organization to report (and it so reports)—  
(I) information regarding each separate expenditure from and contribution to such organization, and  
(II) information regarding the person who makes such contribution or receives such expenditure, which would otherwise be required to be reported under this section, and  
(iii) with respect to which the reports referred to in clause (ii) are  
(I) made public by the agency with which such reports are filed, and  
(II) made publicly available for inspection by the organization in the manner described in section [6104\(d\)](#).

Gregory L. Colvin 6/8/13 2:24 PM

**Deleted:** influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any State or local public office or office in a State or local political organization

**(B) Certain State law differences disregarded**

An organization shall not be treated as failing to meet the requirements of subparagraph (A)(ii) solely by reason of 1 or more of the following:

- (i) The minimum amount of any expenditure or contribution required to be reported under State law is not more than \$300 greater than the minimum amount required to be reported under subsection (j).
- (ii) The State law does not require the organization to identify 1 or more of the following:
  - (I) The employer of any person who makes contributions to the organization.
  - (II) The occupation of any person who makes contributions to the organization.
  - (III) The employer of any person who receives expenditures from the organization.
  - (IV) The occupation of any person who receives expenditures from the organization.
  - (V) The purpose of any expenditure of the organization.
  - (VI) The date any contribution was made to the organization.
  - (VII) The date of any expenditure of the organization.

**(C) De minimis errors**

An organization shall not fail to be treated as a qualified State or local political organization solely because such organization makes de minimis errors in complying with the State reporting requirements and the public inspection requirements described in subparagraph (A) as long as the organization corrects such errors within a reasonable period after the organization becomes aware of such errors.

**(D) Participation of Federal candidate or office holder**

The term “qualified State or local political organization” shall not include any organization otherwise described in subparagraph (A) if a candidate for nomination or election to Federal elective public office or an individual who holds such office—

(i) controls or materially participates in the direction of the organization,

(ii) solicits contributions to the organization (unless the Secretary determines that such solicitations resulted in de minimis contributions and were made without the prior knowledge and consent, whether explicit or implicit, of the organization or its officers, directors, agents, or employees), or  
(iii) directs, in whole or in part, disbursements by the organization.

**(f) Exempt organization, which is not political organization, must include certain amounts in gross income**

**(1) In general**

If an organization described in section 501(c) which is exempt from tax under section 501(a) expends any amount during the taxable year directly (or through another organization) for a political function (within the meaning of subsection (e)(2)), then, notwithstanding any other provision of law, there shall be included in the gross income of such organization for the taxable year, and shall be subject to tax under subsection (b) as if it constituted political organization taxable income, an amount equal to the lesser of—

- (A) the net investment income of such organization for the taxable year, or
- (B) the aggregate amount so expended during the taxable year for such a political function, excluding only those indirect expenses of sponsoring a political action committee (administration and fundraising) and internal personnel and member communication expenditures allowed by the Federal Election Campaign Act or similar State or local law.

**(2) Net investment income**

For purposes of this subsection, the term “net investment income” means the excess of—

- (A) the gross amount of income from interest, dividends, rents, and royalties, plus the excess (if any) of gains from the sale or exchange of assets over the losses from the sale or exchange of assets, over
- (B) the deductions allowed by this chapter which are directly connected with the production of the income referred to in subparagraph (A).

For purposes of the preceding sentence, there shall not be taken into account items taken into account for purposes of the tax imposed by section 511 (relating to tax on unrelated business income).

**(3) Certain separate segregated funds**

For purposes of this subsection and subsection (e)(1), a separate segregated fund (within the meaning of section 610 of title 18) or of any similar State statute, or within the meaning of any State statute which permits the segregation of dues moneys for political functions (within the meaning of subsection (e)(2)) which is maintained by an organization described in section 501(c) which is exempt from tax under section 501(a) shall be treated as a separate organization.

**(g) Treatment of newsletter funds**

**(1) In general**

For purposes of this section, a fund established and maintained by an individual who holds, has been elected to, or is a candidate (within the meaning of paragraph (3)) for nomination or election to, any Federal, State, or

Gregory L. Colvin 6/8/13 2:25 PM  
**Deleted:** n  
Gregory L. Colvin 6/8/13 2:19 PM  
**Deleted:** exempt

Gregory L. Colvin 6/8/13 2:25 PM  
**Deleted:** n  
Gregory L. Colvin 6/8/13 2:19 PM  
**Deleted:** exempt

Ezra W. Reese 5/6/14 12:43 PM  
**Comment:** Meant to capture the executive and administrative personnel exception

Gregory L. Colvin 5/6/14 12:43 PM  
**Comment:** This deals with some of the expenditures of a 501(c) organization that are currently “reserved” under the 527 regs, i.e. not subject to tax. It covers certain activities permitted to be conducted by a parent organization under FECA using general treasury funds, and are not required to be paid from sponsored PAC funds. The only items exempt from the 527(f) would be those explicitly recognized now in the 527 regs (or the preamble thereto) as non-taxable. No longer would the “reserved regs” appear to waive the tax on anything conceivably allowed by FECA or similar state laws. However, the non-taxed items would continue to count, as they do now, against the organization’s exempt primary purpose (or against the lower political limit if there is to be one).

Ezra W. Reese 5/6/14 12:23 PM  
**Deleted:** statute.

Gregory L. Colvin 6/8/13 2:19 PM  
**Deleted:** exempt

Gregory L. Colvin 5/6/14 12:43 PM  
**Comment:** Prompt and direct transfers of dues money to a PAC would continue to be exempt from the 527(f) tax.

local elective public office, for use by such individual exclusively for the preparation and circulation of such individual's newsletter shall, except as provided in paragraph (2), be treated as if such fund constituted a political organization.

**(2) Additional modifications**

In the case of any fund described in paragraph (1)—

(A) the political function shall be only the preparation and circulation of the newsletter, and

(B) the specific deduction provided by subsection (c)(2)(A) shall not be allowed.

**(3) Candidate**

For purposes of paragraph (1), the term "candidate" means, with respect to any Federal, State, or local elective public office, an individual who—

(A) publicly announces that he is a candidate for nomination or election to such office, and

(B) meets the qualifications prescribed by law to hold such office.

**(h) Special rule for principal campaign committees**

**(1) In general**

In the case of a political organization, which is a principal campaign committee, paragraph (1) of subsection (b) shall be applied by substituting "the appropriate rates" for "the highest rate".

**(2) Principal campaign committee defined**

**(A) In general**

For purposes of this subsection, the term "principal campaign committee" means the political committee designated by a candidate for Congress as his principal campaign committee for purposes of—

(i) section 302(e) of the Federal Election Campaign Act of 1971 ([2 U.S.C. 432\(e\)](#)), and

(ii) this subsection.

**(B) Designation**

A candidate may have only 1 designation in effect under subparagraph (A)(ii) at any time and such designation—

(i) shall be made at such time and in such manner as the Secretary may prescribe by regulations, and

(ii) once made, may be revoked only with the consent of the Secretary.

Nothing in this subsection shall be construed to require any designation where there is only one political committee with respect to a candidate.

**(i) Organizations must notify Secretary that they are section 527 organizations**

**(1) In general**

Except as provided in paragraph (5), an organization shall not be treated as an organization described in this section—

(A) unless it has given notice to the Secretary electronically that it is to be so treated, or

Gregory L. Colvin 6/8/13 2:20 PM

Deleted: exempt

(B) if the notice is given after the time required under paragraph (2), the organization shall not be so treated for any period before such notice is given or, in the case of any material change in the information required under paragraph (3), for the period beginning on the date on which the material change occurs and ending on the date on which such notice is given.

**(2) Time to give notice**

The notice required under paragraph (1) shall be transmitted not later than 24 hours after the date on which the organization is established or, in the case of any material change in the information required under paragraph (3), not later than 30 days after such material change.

**(3) Contents of notice**

The notice required under paragraph (1) shall include information regarding—

(A) the name and address of the organization (including any business address, if different) and its electronic mailing address,

(B) the purpose of the organization,

(C) the names and addresses of its officers, highly compensated employees, contact person, custodian of records, and members of its Board of Directors,

(D) the name and address of, and relationship to, any related entities (within the meaning of section [168\(h\)\(4\)](#)),

(E) whether the organization intends to claim an exemption from the requirements of subsection (j) or section [6033](#), and

(F) such other information as the Secretary may require to carry out the internal revenue laws.

**(4) Effect of failure**

In the case of an organization failing to meet the requirements of paragraph (1) for any period, the taxable income of such organization shall be computed by taking into account any political function income (and any deductions directly connected with the production of such income) or, in the case of a failure relating to a material change, by taking into account such income and deductions only during the period beginning on the date on which the material change occurs and ending on the date on which notice is given under this subsection. For purposes of the preceding sentence, the term “political function income” means any amount described in a subparagraph of subsection (c)(3).

**(5) Exceptions**

This subsection shall not apply to any organization—

(A) to which this section applies solely by reason of subsection (f)(1),

(B) which reasonably anticipates that it will not have gross receipts of \$25,000 or more for any taxable year,

(C) which is a political committee of a State or local candidate or which is a State or local committee of a political party, or

(D) which is a qualified State or local political organization.

**(6) Coordination with other requirements**

Gregory L. Colvin 6/8/13 2:20 PM  
**Deleted:** exempt

Gregory L. Colvin 6/8/13 2:20 PM  
**Deleted:** exempt

Gregory L. Colvin 6/9/13 5:15 PM  
**Deleted:** , whether or not segregated for use for an exempt function

Ezra W. Reese 5/6/14 12:46 PM  
**Deleted:** or

This subsection shall not apply to any person required (without regard to this subsection) to report under the Federal Election Campaign Act of 1971 ([2 U.S.C. 431](#) et seq.) as a political committee.

**(j) Required disclosure of expenditures and contributions**

**(1) Penalty for failure**

In the case of—

**(A)** a failure to make the required disclosures under paragraph (2) at the time and in the manner prescribed therefor, or

**(B)** a failure to include any of the information required to be shown by such disclosures or to show the correct information,

there shall be paid by the organization an amount equal to the rate of tax specified in subsection (b)(1) multiplied by the amount to which the failure relates. For purposes of subtitle F, the amount imposed by this paragraph shall be assessed and collected in the same manner as penalties imposed by section [6652\(c\)](#).

**(2) Required disclosure**

A political organization which accepts a contribution, or makes an expenditure, for a [political](#) function during any calendar year shall file with the Secretary either—

**(A)**

**(i)** in the case of a calendar year in which a regularly scheduled election is held—

**(I)** quarterly reports, beginning with the first quarter of the calendar year in which a contribution is accepted or expenditure is made, which shall be filed not later than the fifteenth day after the last day of each calendar quarter, except that the report for the quarter ending on December 31 of such calendar year shall be filed not later than January 31 of the following calendar year,

**(II)** a pre-election report, which shall be filed not later than the twelfth day before (or posted by registered or certified mail not later than the fifteenth day before) any election with respect to which the organization makes a contribution or expenditure, and which shall be complete as of the twentieth day before the election, and

**(III)** a post-general election report, which shall be filed not later than the thirtieth day after the general election and which shall be complete as of the twentieth day after such general election, and

**(ii)** in the case of any other calendar year, a report covering the period beginning January 1 and ending June 30, which shall be filed no later than July 31 and a report covering the period beginning July 1 and ending December 31, which shall be filed no later than January 31 of the following calendar year, or

**(B)** monthly reports for the calendar year, beginning with the first month of the calendar year in which a contribution is accepted or expenditure is made, which shall be filed not later than the twentieth day after the last day of the month and shall be complete as if the last day of the month, except that, in lieu of filing the reports otherwise due in November and December of any year in which a regularly scheduled general election is held, a pre-general election report shall be filed in accordance with subparagraph (A)(i)(II), a post-general

Gregory L. Colvin 6/10/13 7:08 AM  
**Deleted:** n  
Gregory L. Colvin 6/8/13 2:20 PM  
**Deleted:** exempt

election report shall be filed in accordance with subparagraph (A)(i)(III), and a year end report shall be filed not later than January 31 of the following calendar year.

**(3) Contents of report**

A report required under paragraph (2) shall contain the following information:

(A) The amount, date, and purpose of each expenditure made to a person if the aggregate amount of expenditures to such person during the calendar year equals or exceeds \$500 and the name and address of the person (in the case of an individual, including the occupation and name of employer of such individual).

(B) The name and address (in the case of an individual, including the occupation and name of employer of such individual) of all contributors which contributed an aggregate amount of \$200 or more to the organization during the calendar year and the amount and date of the contribution.

Any expenditure or contribution disclosed in a previous reporting period is not required to be included in the current reporting period.

**(4) Contracts to spend or contribute**

For purposes of this subsection, a person shall be treated as having made an expenditure or contribution if the person has contracted or is otherwise obligated to make the expenditure or contribution.

**(5) Coordination with other requirements**

This subsection shall not apply—

(A) to any person required (without regard to this subsection) to report under the Federal Election Campaign Act of 1971 ([2 U.S.C. 431](#) et seq.) as a political committee,

(B) to any State or local committee of a political party or political committee of a State or local candidate,

(C) to any organization which is a qualified State or local political organization,

(D) to any organization which reasonably anticipates that it will not have gross receipts of \$25,000 or more for any taxable year,

(E) to any organization to which this section applies solely by reason of subsection (f)(1), or

(F) with respect to any expenditure which is an independent expenditure (as defined in section 301 of such Act).

**(6) Election**

For purposes of this subsection, the term “election” means—

(A) a general, special, primary, or runoff election for a Federal office,

(B) a convention or caucus of a political party which has authority to nominate a candidate for Federal office,

(C) a primary election held for the selection of delegates to a national nominating convention of a political party, or

(D) a primary election held for the expression of a preference for the nomination of individuals for election to the office of President.

**(7) Electronic filing**

Any report required under paragraph (2) with respect to any calendar year shall be filed in electronic form if the organization has, or has reason to expect to have, contributions exceeding \$50,000 or expenditures exceeding \$50,000 in such calendar year.

**(k) Public availability of notices and reports**

**(1) In general**

The Secretary shall make any notice described in subsection (i)(1) or report described in subsection (j)(7) available for public inspection on the Internet not later than 48 hours after such notice or report has been filed (in addition to such public availability as may be made under section [6104\(d\)\(7\)](#)).

**(2) Access**

The Secretary shall make the entire database of notices and reports which are made available to the public under paragraph (1) searchable by the following items (to the extent the items are required to be included in the notices and reports):

- (A) Names, States, zip codes, custodians of records, directors, and general purposes of the organizations.
- (B) Entities related to the organizations.
- (C) Contributors to the organizations.
- (D) Employers of such contributors.
- (E) Recipients of expenditures by the organizations.
- (F) Ranges of contributions and expenditures.
- (G) Time periods of the notices and reports.

Such database shall be downloadable.

**(l) Authority to waive**

The Secretary may waive all or any portion of the—

- (1) tax assessed on an organization by reason of the failure of the organization to comply with the requirements of subsection (i), or
- (2) amount imposed under subsection (j) for a failure to comply with the requirements thereof, on a showing that such failure was due to reasonable cause and not due to willful neglect.