

## Labor Organizations

A labor organization is an [association of workers](#) who have combined to protect or promote their interests by bargaining collectively with their employers to secure better working conditions, wages, and similar benefits. *Similar benefits* include benefits traditionally provided by labor organizations such as strike, lockout, death, sickness, accident, and other benefits. Labor organizations need not be recognized labor unions. An organization does not qualify for exemption if its net earnings [inure](#) to the benefit of any member.

### Labor Organizations - Exempt Purposes

A labor organization is an association of workers who have combined to protect and promote the interests of the members by bargaining collectively with their employers to secure better working conditions.

To show that an organization has the purpose of a labor organization, its [organizing documents](#) or accompanying statements (submitted with its [exemption application](#)) should include information establishing that the organization is organized to better the conditions of workers, improve the grade of their products, and develop a higher degree of efficiency in their respective occupations. In addition, no net earnings of the organization may [benefit](#) any member.

### Membership of labor organization

While a labor organization generally is composed of employees or representatives of the employees (in the form of collective bargaining agents) and similar employee groups, evidence that an organization's [membership](#) consists mainly of workers does not in itself indicate an exempt purpose. An organization must show in its application that it has the [exempt purposes](#) of a labor organization. These purposes may be accomplished by a single labor organization acting alone or by several organizations acting together through a separate organization.

### Labor Organizations - Composition of Membership

The composition of a labor organization is not as important as are the [purposes](#) for which it is formed and operated.

An organization need not be composed exclusively of employees to be exempt under Internal Revenue Code section 501(c)(5). An organization whose membership includes mostly employees and some independent contractors can qualify if its primary purpose is to better the conditions of its members by negotiating better wages and working conditions with those who contract for its members' services.

Similarly, an organization composed of retired employees can qualify for exemption as a labor organization under Code section 501(c)(5) where it acts to secure and maintain retirement benefits for its members.

However, where most of an organization's members are entrepreneurs or independent contractors, it does not qualify for exemption as a labor organization.

### Examples of Exempt Activities - Labor Organization

The following examples illustrate activities furthering the [exempt purposes](#) of a labor organization under Code section 501(c)(5):

- A newspaper, published by several labor unions, containing only matters concerning organized labor activities
- A labor temple that provided a home for several labor unions in the community, which owned the organization's facilities
- A dispatch hall established pursuant to a collective bargaining agreement that allocated work assignments among eligible union members

- An organization created by exempt labor unions representing public employees that conducted and supported litigation of common interest to member unions
- A legal defense fund for law enforcement officers
- An association of teachers that bargains collectively, processes grievances for members, and sponsors continuing education seminars and courses
- A committee founded and operated by union chapters and an employers' association, under a collective bargaining agreement, to operate an apprenticeship and training committee program in a particular industry
- A union strike and lockout fund

## Exemption Requirements

To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be [organized](#) and [operated](#) exclusively for [exempt purposes](#) set forth in section 501(c)(3), and none of its earnings may [inure](#) to any private shareholder or individual. In addition, it may not be an [action organization](#), *i.e.*, it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates.

Organizations described in section 501(c)(3) are commonly referred to as *charitable organizations*. Organizations described in section 501(c)(3), other than testing for public safety organizations, are eligible to receive tax-deductible [contributions](#) in accordance with Code section 170.

The organization must not be organized or operated for the benefit of [private interests](#), and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual. If the organization engages in an [excess benefit transaction](#) with a person having substantial influence over the organization, an [excise tax](#) may be imposed on the person and any organization managers agreeing to the transaction.

Section 501(c)(3) organizations are restricted in how much political and legislative (*lobbying*) activities they may conduct. For a detailed discussion, see [Political and Lobbying Activities](#). For more information about lobbying activities by charities, see the article [Lobbying Issues](#); for more information about political activities of charities, see the FY-2002 CPE topic [Election Year Issues](#).

## Exempt Purposes - Internal Revenue Code Section 501(c)(3)

The exempt purposes set forth in section 501(c)(3) are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term *charitable* is used in its generally accepted legal sense and includes 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.

## Political and Lobbying Activities

[Political activities](#) and [legislative activities](#) are two different things and are subject to two different sets of rules. The rules depend on the [type of tax-exempt organization](#), the type of activity (political or legislative) at issue, the scope or amount of the activity conducted, and the consequences of exceeding the given set of limitations.

## The Restriction of Political Campaign Intervention by Section 501(c)(3) Tax-Exempt Organizations

Under the Internal Revenue Code, all section 501(c)(3) organizations are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office. Contributions to political campaign funds or public statements of position (verbal or written) made on behalf of the organization in favor of or in opposition to any candidate for public office clearly violate the prohibition against political campaign activity. Violating this prohibition may result in denial or revocation of tax-exempt status and the imposition of certain excise taxes.

Certain activities or expenditures may not be prohibited depending on the facts and circumstances. For example, certain voter education activities (including presenting public forums and publishing voter education guides) conducted in a non-partisan manner do not constitute prohibited political campaign activity. In addition, other activities intended to encourage people to participate in the electoral process, such as voter registration and get-out-the-vote drives, would not be prohibited political campaign activity if conducted in a non-partisan manner.

On the other hand, voter education or registration activities with evidence of bias that (a) would favor one candidate over another; (b) oppose a candidate in some manner; or (c) have the effect of favoring a candidate or group of candidates, will constitute prohibited participation or intervention.

The Internal Revenue Service provides [resources](#) to exempt organizations and the public to help them understand the prohibition. As part of its examination program, the IRS also monitors whether organizations are [complying](#) with the prohibition.

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## **Lobbying Activity**

In general, no organization may qualify for section 501(c)(3) status if a substantial part of its activities is attempting to influence legislation (commonly known as *lobbying*). A 501(c)(3) organization may engage in some lobbying, but too much lobbying activity risks loss of tax-exempt status.

*Legislation* includes action by Congress, any state legislature, any local council, or similar governing body, with respect to acts, bills, resolutions, or similar items (such as legislative confirmation of appointive office), or by the public in referendum, ballot initiative, constitutional amendment, or similar procedure. It does not include actions by executive, judicial, or administrative bodies.

An organization will be regarded as attempting to influence legislation if it contacts, or urges the public to contact, members or employees of a legislative body for the purpose of proposing, supporting, or opposing legislation, or if the organization advocates the adoption or rejection of legislation.

Organizations may, however, involve themselves in issues of public policy without the activity being considered as lobbying. For example, organizations may conduct educational meetings, prepare and distribute educational materials, or otherwise consider public policy issues in an educational manner without jeopardizing their tax-exempt status.

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