



Federal Tax ADVISORY ■

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Political Action Committees

It's that time of every two or four years, and political action committees (PACs) are becoming active. A political action committee is a fund that collects contributions from persons that are somehow related to the PAC, called a connected PAC, or not related, usually called a super PAC.

There are two layers of regulation of PACs. First, if it spends on federal campaigns, it must register with the Federal Election Commission (FEC); alternatively, if it spends on state or local races, it probably must register with a state. Most users of PACs are well versed in the FEC requirements, but may not be so familiar with the second layer of regulation: taxation.

PACs are political organizations subject to Internal Revenue Code Section 527. Generally, they are not taxed, but that requires proper operation, bookkeeping, and filing.

From the tax standpoint, the most important variable for PACs is who sponsors them: what is their connected organization, if they are connected. Numerically, most PACs are connected to businesses. Corporations, law firms, and other business organizations have PACs that solicit their employees.

But tax-exempt organizations also organize PACs, most notably trade associations, labor unions, and social welfare organizations. Even charities attempt to organize PACs, separated from the charity by a taxable subsidiary or a social welfare organization.

Recently, the IRS issued [LTR 202005020](#) to a large hospital charity, turning down its request for a ruling approving its plan to organize a PAC under its taxable subsidiary. The denial surprised the tax-exempt community. Some of the features of the proposed plan were very standard operating procedures for large charitable organizations: resource-sharing agreements and overlapping board and employees.

Alston & Bird can assist with both PAC and exempt organization involvement with political campaigns.

For more information, please contact [Jack Cummings](#) at 919.862.2302.

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