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## What Advisors, Clients Should Know About Political Donations

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### What You Need to Know

- A growing number of investors say they want to make a bigger difference in the world, according to a UBS study.
- Contributions made directly to candidates are not tax deductible.
- However, donors can use their money to indirectly support candidates or causes, and get a tax break while doing so.

Whether it's supporting a favored political candidate or party, contributing to a nonprofit that's working for a cause they care about or using an impact lens when building a portfolio, one thing has become increasingly important to investors.

A **UBS study** found that 51% of investors over age 50 said that the pandemic made them want to make more of a difference in the world. That number rose to 79% for investors under age 50.

Meanwhile, the ways that donors choose to give continue to expand, and the lines increasingly blur between public and private causes. The desire to give creates an opportunity for advisors to help their clients find the most efficient ways to use their capital to drive change. In an election year, that often involves conversations about political giving.

From a tax perspective, contributions made directly to political candidates are not tax deductible, but there are some ways that donors use their money to indirectly support candidates or causes — and get a tax break in the process.

So far this year, outside groups have spent nearly \$2 billion on political campaigns, according to **OpenSecrets.org**, with much of that coming directly — or indirectly — from individual donors.

Here's a look at several strategies clients may use to contribute to candidates and causes they care about.

### Direct Political Contributions

It's important for clients to understand that donations to political parties, politicians, or political action committees typically are not tax-deductible on a federal level. In addition, there are some important rules they should know about such donations.

### Donations to Candidates, Political Parties and Traditional PACs

The federal limits on how much an individual can contribute directly to a politician or their party vary depending on the recipient and break down as follows:

- **Individual candidates or candidate committees:** \$2,900 each
- **Traditional political action committees (PACs):** \$5,000 each
- **State, district and local party committees:** \$10,000 combined
- **National party committees:** \$36,500
- **National party committee accounts:** \$109,500

Contribution limits are indexed to inflation, so it's likely that these limits will go up ahead of the 2024 election season. Contributions are not tax-deductible, and are not subject to gift tax rules. There are also no deductions available for donations of in-kind services or for time that you volunteer with a campaign or political committee.

Recipients must report all donations worth more than \$200 to the Federal Election Commission, and the donor's name, address and amount donated will be posted publicly in a searchable database on the FEC website.

Clients with a small business organized as a partnership can also make contributions through their company, but corporations are not allowed to make direct political contributions unless they have created a separate segregated fund (SSF) for that purpose.

Minors are allowed to make donations to political candidates, subject to the rules above, if they're doing so with their own money and by their own choice. Adults cannot give minors cash specifically for the purpose of making a political donation.

### Donations to Super PACs

So-called Super PACs are political action committees that can advertise or conduct other activities such as phone banking or canvassing in support of (or attacking) a candidate, but Super PACs are not allowed to donate their funds to a candidate or coordinate directly with that candidate or their campaign.

There are no limits on the amount of money that individuals or corporations can give to Super PACs. Gifts are not tax deductible or subject to gift tax rules.

Super PACs also must report any donation that they receive in excess of \$200, but clients who want anonymity may be able to keep their names off public registries by giving through a corporation, LLC or a 501(c)4 organization (see below). High-profile Super PACs include the **Senate Leadership Fund** and **Women Vote!**

Some PACs are "hybrid PACs," meaning they act as both a traditional PAC and Super PAC. Also known as Carey Committees, these organizations must maintain a separate bank account where they keep the funds donated or used for their Super PAC activities.

### State Tax Credits

While political donations are not deductible on federal taxes, a handful states do offer a tax break for donors to political candidates or political action committees in the state where they file taxes. State tax credits or deductions for political contributions typically stem from a desire to spur political contributions from low-income taxpayers who might not otherwise make a political contribution.

The rules for such deductions vary by state:

- **Arkansas, Ohio, Minnesota:** Up to \$50 credit for individual filers and \$100 for married couples filing jointly
- **Oregon:** Up to \$50 credit for individual filers making less than \$75,000 and \$100 for married couples filing jointly and making less than \$150,000
- **Montana:** Up to \$100 deduction for individual filers and \$200 for married couples filing jointly. (Note that since this is a deduction and not a credit, taxpayers will need to itemize to claim it.)

Most states also have rules about how much individuals can contribute to political candidates and when recipients must publicly report those contributions.

### Indirect Contributions With Tax Advantages

For clients who want to advance political goals and receive some tax benefits in the process, there are more indirect ways to contribute to their cause that may have some tax advantages

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### 501(c)4 Contributions

Knowns as "social welfare" or "civic" organizations, these nonprofits can collect unlimited donations from individuals and corporations and are allowed to engage in advocacy or lobbying activities, and many have a political agenda.

In turn, the 501(c)4 organization can make contributions to Super PACs, directly to candidates, or purchase political ads on their own, but such activities must comprise less than half of their spending. The primary purpose of a 501(c)4 organization cannot be politics.

While 501(c)4s do not have to publicly reveal the names of their donors, they do need to report all contributions of \$5,000 or more to the IRS. Contributions are not tax deductible, but donors who choose to give appreciated stock to the 501(c)4 do not have to pay capital gains on the growth of those stocks. Contributions are not currently subject to gift taxes.

Critics of 501(c)4 organizations, refer to them as the "dark money" of politics, since they can be vehicles for individuals or corporations to anonymously have their donations used for political purposes. Like other nonprofits, 501(c)4 organizations do not have to pay income taxes. Some examples of 501(c)4 organizations are the **March for Our Lives Action Fund** and **Crossroads GPS**.

### Advocacy-Affiliated 501(c)3 Donations

Donations to these traditional charitable organizations are tax-deductible, but they are not allowed to engage in political activities, with the exception of some voter registration. In some cases they can work in support of ballot measures.

However, some 501(c)3 organizations are affiliated with 501(c)4 organizations, and in some cases they share office space or staff, or can transfer funds from the 501(c)3 to the 501(c)4. Examples of 501(c)3 advocacy-affiliated organizations include the **American Civil Liberties Union** and the **America First Policy Institute**.

Religious organizations such as churches and synagogues also qualify as 501(c)3 organizations. By law, such organizations are not allowed to endorse political candidates or engage in political activity, some critics claim that many such organizations do explicitly or implicitly make such endorsements.

Charities with 501(c)3 status do not have to publicly disclose their contributors. Donors can contribute appreciated stock without having to pay capital gains taxes. There are other tax breaks as well, for contributions to these types of organizations, including the ability to give via a donor-advised fund or by using a qualified-charitable distribution from a retirement account.

In general, to get the tax deduction, donors will need to have a receipt for the contribution and itemize their taxes.

### Using a Private Foundation for Nonprofit Giving

Some high net worth donors may consider setting up their own private foundation to do their charitable giving. This can be a more complex undertaking, as it requires establishing a board, declaring a mission and determining how to invest and distribute the foundation's funds.

However, private foundations provide a lot of flexibility to the families or individuals who control them.

While tax laws around private foundations can be complicated, donors can write off their contributions to their own private foundations, and give appreciated stock without having to pay capital gains taxes on the profits.

The foundation itself is a 501(c)3 organization and must distribute at least 5% of its portfolio every year through grants to further its mission. Because of its 501(c)3 status, private foundations cannot give directly to political candidates or engage in political activity.

While many private foundations focus their grantmaking on other 501(c)3 organizations, they can also give grants to 501(c)4 organizations as long as they're not used for political activities.

### Other Indirect Contributions

There are a couple of other types of 501(c) organizations that can take donations and advocate or lobby on behalf of a cause. In general, they're subject to the same rules as 501(c)4 organizations when it comes to political activities.

Contributions to these groups are not tax deductible as charitable expenses, but individuals or companies may be able to deduct their contributions as a business expense.

Like other tax-exempt organizations, 501(c)5 and 501(c)6 organizations only have to pay taxes on those funds used for lobbying political activities:

- **501(c)5 organizations:** There are unions and agricultural groups, which raise the bulk of their money from dues and advocate on behalf of their members. They often endorse political candidates. Examples of 501(c)5 organizations include the **American Farm Bureau Federation** and the **American Federation of Teachers**.
- **501(c)6 organizations:** These are trade groups or chambers of commerce. They lobby on behalf of their members and may endorse candidates or engage in other political activities such as lobbying for laws or regulatory changes. Examples of 501(c)6 organizations include the **American Bar Association** and the **National Retail Federation**.

While direct contributions to political candidates are not deductible on a federal level, there are many ways that clients can use their charitable giving to influence public policy or better the odds of a political candidate.

The best option for an individual client will depend on their goals, financial picture and how important is to them to get tax breaks for their contributions. By discussing the above options with them, you can arm them with the information necessary to make such a decision.

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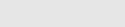
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