Congress of the United States
Washington, DC 20515

June 6, 2013

Mr. Daniel I. Werfel
Acting Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW, Room 3000
Washington, DC 20224

Dear Acting Commissioner Werfel:

Recent revelations that the IRS unevenly scrutinized applications for tax-exempt status highlight the need to revise regulations issued by the IRS for Section 501(c)(4) of the Internal Revenue Code. It goes without saying that any display of political bias by IRS officials is wholly unacceptable. However, there would be no room for any such behavior if these regulations more accurately reflected the intent of Congress in establishing a tax exemption for social welfare organizations and civic leagues whose work benefits our communities.

The tax exempt status written into the Tariff Act of 1913 clearly defines this exemption for "Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees." The current regulations run afoul of the law by taking what was clearly defined as an organization operated exclusively for the promotion of social welfare and changing it to one "primarily engaged in promoting in some way the common good and general welfare of the people of the community." The significant distinction created here in the difference between the words "exclusively" and "primarily" is obvious to any casual observer, and the problems with the IRS interpretation of this statute has been recognized by the courts as well. These regulations have flouted the Internal Revenue Code for more than half a century, and with them the IRS created a door to tax-exempt political activity that was never established by Congress.

That door swung wide open with the Supreme Court's 5-4 ruling in *Citizens United v. FEC*, which granted nonprofits and other private entities the unfettered right to influence the outcome of federal elections without disclosing their donors to the Federal Election Commission. Since that decision, the number of applications for 501(c)(4) tax-exempt status has more than doubled. Despite the influx of applications, very few organizations have been denied tax-exempt status. In fact, according to the Center for Public Integrity, the IRS has only denied applications to 60 of the 8,214 groups seeking it. It is no surprise that in 2012, nearly a quarter billion dollars spent by outside groups to influence the outcome of our elections came from these 501(c)(4) entities. There are dozens of flagrant examples of 501(c)(4) groups being formed for the purpose of funneling anonymous money to Super PACs. According to the IRS, however, this practice is consistent with the law so long as such transfers are not the "primary" purpose of the tax-exempt organization.

We are asking that you reexamine the IRS rules that wrongfully opened the door to significant political activity by 501(c)(4) groups by establishing a standard that permits 501(c)(4) only *de minimus* or insubstantial amount of work outside its social welfare mission. The new regulation should completely prohibit any 501(c)(4) organization from making expenditures supporting or

opposing a candidate for public office and making monetary or in-kind contributions to political action committees or any other entity engaged in campaign activity.

While this simple revision is no replacement for comprehensive legislation to create a more accountable and transparent campaign finance system, it is an important first step at preventing purely political organizations—of all ideological persuasions—from gaining 501(c)(4) status. As we continue to push for comprehensive campaign finance reform in Congress, we look forward to working with you on a critical rule change that will preserve the true societal value of 501(c)(4) groups and at the same time protect the American taxpayer.

Sincerely,

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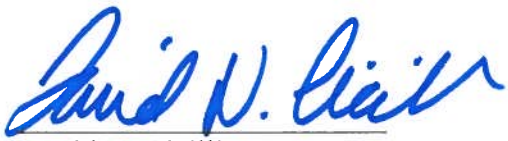

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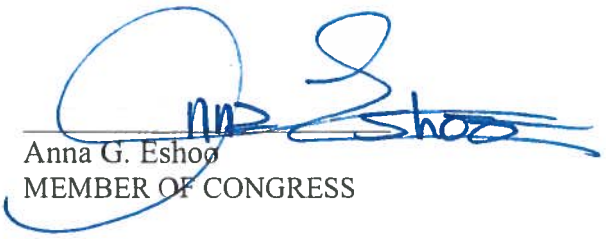

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