
Tax-Exempt Status Decision Flowchart

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How to Use This Flowchart

Answer the five questions below in order. Each answer narrows your options. By Question 5, you'll know which tax-exempt status fits your organization.

For the full comparison guide, visit: [501\(c\)\(3\) vs 501\(c\)\(4\) vs 501\(c\)\(6\)](#)

Question 1: What Is Your Organization's Primary Purpose?

A) Charitable, educational, religious, or scientific work

→ Examples: Food bank, school, church, research lab, youth mentoring, hospital, museum, animal shelter

→ Go to **Question 2**

B) Promoting social welfare / community advocacy

→ Examples: Civic league, advocacy coalition, voter engagement, community organizing, volunteer fire company

→ Go to **Question 3**

C) Promoting the common business interests of an industry or profession

→ Examples: Chamber of commerce, trade association, professional society, real estate board, sports league

→ **Your answer: 501(c)(6)** — Skip to the 501(c)(6) Summary below.

D) I'm not sure / It's a mix of the above

→ Go to **Question 2** and continue through all questions. If your answers are split, read the "Dual Entity" section at the bottom.

Question 2: Do You Need Tax-Deductible Donations?

A) Yes — individual donors, foundations, and/or corporate sponsors are a primary funding source, and tax deductibility matters for attracting them.

→ Strong indicator for **501(c)(3)**

→ Go to **Question 4**

B) No — our funding comes from membership dues, events, supporter contributions where the tax deduction isn't the driver, or we're self-funded.

→ (c)(3) isn't strictly necessary for funding purposes

→ Go to **Question 3**

C) We need some tax-deductible donations AND we need to do significant advocacy/lobbying.

→ You may need a **dual entity** (c)(3) + (c)(4)

→ Go to **Question 3** to determine your advocacy needs, then read the "Dual Entity" section.

Question 3: How Important Is Lobbying and Political Activity?

A) We don't plan to lobby or engage in political campaigns.

→ No political flexibility needed

→ If your purpose is charitable/educational → **501(c)(3)**

→ If your purpose is social welfare → **501(c)(4)** still works, but consider (c)(3) for the tax-deductible donation advantage

B) We plan to lobby occasionally, but it's not a major part of our work.

→ A **501(c)(3)** with the 501(h) election can handle this. You can spend up to 20% of your budget on lobbying (see the limits table in the full guide).

→ Go to **Question 4** to confirm (c)(3) fit.

C) Lobbying is a core activity — we need to regularly contact legislators, mobilize supporters around legislation, and/or testify on bills.

→ The (c)(3) lobbying limits are probably too restrictive.

→ **501(c)(4)** is the better fit.

→ Go to **Question 5** to confirm.

D) We want to endorse candidates, run political ads, support PACs, or do significant election-related work.

→ This **rules out 501(c)(3)** entirely (absolute prohibition on political campaign activity).

→ **501(c)(4)** is your answer — political activity is allowed as long as it's not your primary activity.

→ Skip to the **501(c)(4) Summary** below.

Question 4: Can You Comply With 501(c)(3) Restrictions?

Answer all three sub-questions:

4a) Can you commit to ZERO political campaign activity?

No endorsing candidates, no campaign contributions, no ads supporting or opposing candidates, no distributing biased voter guides.

- Yes → Passes the (c)(3) test
- No → You need a (c)(4) or a dual entity

4b) Can you keep lobbying within the 501(h) limits?

(Generally 5-20% of your expenditure budget, depending on org size)

- Yes → Passes the (c)(3) test
- No → You need a (c)(4)

4c) Is your organization operated exclusively for exempt purposes?

No private benefit to insiders beyond reasonable compensation. No profit distribution.

- Yes → Passes the (c)(3) test
- No → Review your structure

If you answered YES to all three → Your answer: 501(c)(3)

→ Skip to the **501(c)(3) Summary** below.

If you answered NO to any → Your answer is likely 501(c)(4) or a dual entity.

→ Go to **Question 5**.

Question 5: Confirming Your 501(c)(4) Fit

5a) Is your primary purpose promoting social welfare / community benefit (not private member benefit)?

- Yes → Fits (c)(4)
- No, it's primarily for member business interests → Consider **501(c)(6)** instead

5b) Will political campaign activity be LESS than your primary activity?

(Keep it well below 50% of total activities to be safe)

- Yes → Fits (c)(4)
- No, political campaigns ARE our primary purpose → You may need a **527 political organization**, not a (c)(4). Consult an attorney.

5c) Can you operate without relying on tax-deductible charitable donations?

- Yes → Fits (c)(4)
- No → Consider a **dual entity** (c)(3) + (c)(4)

If you answered YES to all three → Your answer: 501(c)(4)

Summary: Your Tax-Exempt Status

501(c)(3) — Charitable Organization

You chose this because:

- Your work is charitable, educational, religious, or scientific
- You need tax-deductible donations and/or foundation grants
- You can live within lobbying limits (elect 501(h) for clear thresholds)
- You will not engage in any political campaign activity

Next steps:

- Incorporate as a nonprofit in your state
- Draft bylaws and form your board ([guide](#))
- File Form 1023 (or 1023-EZ if you qualify) at Pay.gov
- Apply for state tax exemptions
- Open your nonprofit bank account ([Holdings](#) →)

Application: Form 1023 (\$600) or Form 1023-EZ (\$275)

Timeline: 2-4 weeks (1023-EZ) or 3-6 months (full 1023)

✔ 501(c)(4) — Social Welfare Organization

You chose this because:

- Your work centers on advocacy, community organizing, or civic engagement
- You need unlimited lobbying capacity
- You want the flexibility to engage in political campaign activity
- You don't rely on tax-deductible donations as a primary funding source

Next steps:

- Incorporate as a nonprofit in your state
- File Form 8976 (Notice of Intent to Operate as a 501(c)(4)) within 60 days of formation
- File Form 1024-A for formal IRS recognition
- Open your nonprofit bank account ([Holdings →](#))

Application: Form 1024-A (\$600)

Timeline: 3-6 months

✔ 501(c)(6) — Business League / Trade Association

You chose this because:

- You exist to promote the common business interests of an industry or profession
- Your revenue is primarily from membership dues
- You may need to lobby on behalf of your industry
- Your focus is networking, professional development, industry standards, or collective advocacy for a business sector

Next steps:

- Incorporate as a nonprofit in your state
- File Form 1024 with the IRS
- Establish your membership structure and dues schedule
- Open your business bank account ([Holdings →](#))

Application: Form 1024 (\$600)

Timeline: 3-6 months

✂ Dual Entity: 501(c)(3) + 501(c)(4)

You chose this because:

- Your mission has both charitable AND advocacy components
- You need tax-deductible donations for charitable programs AND unlimited lobbying/political flexibility for advocacy work
- Your organization is large enough to justify the administrative overhead (typically \$500K+ combined budget)

Structure:

- **501(c)(3) entity** handles: charitable programs, education, research, foundation grants, tax-deductible donations
- **501(c)(4) entity** handles: lobbying, political campaigns, advocacy, issue ads

Critical rules:

- Separate legal entities with separate boards (some overlap is OK)
- Separate bank accounts and financial records
- No (c)(3) money flowing to (c)(4) political activities
- Written cost-sharing agreements for any shared resources
- Consult an attorney to set this up properly

Next steps:

- Incorporate BOTH entities separately
- File Form 1023 for the (c)(3) and Form 1024-A for the (c)(4)
- Establish cost-sharing and governance agreements
- Open separate bank accounts for each entity ([Holdings](#) →)

Quick Reference Card

I want to...	501(c)(3)	501(c)(4)	501(c)(6)
Accept tax-deductible donations	✓	✗	✗
Get foundation grants	✓	✗	✗
Lobby without limits	✗	✓	✓
Endorse political candidates	✗	✓	✓
Collect membership dues (biz deductible)	N/A	✗	✓

Get property/sales tax exemptions	✓	⚠	✗
File the simplest application	✓ (1023-EZ)	⚠	⚠

*Not as primary activity

Need Help Deciding?

If you're still unsure after this flowchart, consult a nonprofit attorney in your state. The initial consultation (\$200-\$500) can save you thousands in restructuring costs later.

And whichever status you choose — you'll need a bank account that works for you.

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