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Donors to Social Welfare Organizations:

Are they avoiding gift tax?

Jill Sharp · Accounting Major · University of Montana



Introduction:

- *Social Welfare Organizations:* Internal Revenue Code section 501(c)(4)s, must not be operated for profit and must be operated exclusively to promote social welfare.
- *Gift Tax:* A federal tax on the transfer of property from one person to another with less than fair value in return. Gifts are subject to tax after a \$14,000 annual exclusion amount.

Donor Implications of Current Gift Tax Regulation:

- *Charities:* Section 501(c)(3): no gift tax, can deduct contributions on income taxes.
- *Political Organizations:* Section 527: no gift tax, no benefit in deductions on income taxes.
- *Social Welfare Organizations:* no clear tax implications, ambiguous IRS regulations.

Objectives:

- To analyze how donors' view alignment impacts contribution willingness.
- To detect a statistically significant difference in donors' willingness to contribute when taxed vs. not taxed.

Methods:

- 108 subjects were surveyed, 54 subject to gift tax (S1) and 54 excluded from it (S2).
- Subjects rated their alignment with given 501(c)(4)s in Montana and willingness to contribute above the \$14,000 exclusion amount.
- T-Tests between donor alignment and contribution willingness were conducted.
- T-Tests were conducted to determine difference between S1 and S2 donor contribution willingness.

Results:

- *View Alignment P-Values:*
If Taxed- Aligned vs. Not Aligned: $p = 0.107$
If Not Taxed- Aligned vs. Not Aligned: $p < 0.001$
If Aligned- Taxed vs. Not Taxed: $P < 0.001$
- *Contribution Willingness P-Values:*
Taxed vs. Not Taxed:
Montana Rifle & Pistol: $p < 0.001$
Fed of State Conservation: $p < 0.001$
Lions Club: $p < 0.01$

Conclusions:

- *If donors are taxed, view alignment does not significantly impact contribution willingness.*
- *If donors are not taxed, view alignment does significantly impacts contribution willingness.*
- *If donors' views align, tax treatment significantly impacts contribution willingness.*
- *If donors' contributions are subject to gift tax, donors are less likely to contribute.*

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