

**Office of Chief Counsel
Internal Revenue Service
Memorandum**

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subject: Whether an organization described in section 501(c)(4) is a "political party" for purposes of section 271.

This chief counsel advice responds to your request for assistance. This advice may not be used or cited as precedent.

ISSUES

1. Whether an organization described in section 501(c)(4) that makes expenditures in support of a candidate for elective public office is a political party within the meaning of section 271?
2. If yes, whether a taxpayer may claim a worthless debt deduction under section 166 for any debt owed by such section 501(c)(4) organization?

CONCLUSIONS

1. A section 501(c)(4) organization that makes expenditures for the purpose of influencing or attempting to influence the election of a candidate for elective public office is a political party under section 271.

2. A taxpayer may not claim a worthless debt deduction under section 166 for any debt owed by such section 501(c)(4) organization.

FACTS

An organization files a Return of Organization Exempt from Income Taxation (Form 990) for each of the taxable years Year 1, Year 2, and Year 3 as an organization described in section 501(c)(4).

In Year 2, a taxpayer makes a loan to the organization. In Year 3, the organization dissolves without any repayment of the loan. On the taxpayer's income tax return for Year 3, taxpayer claims a worthless debt deduction under section 166 in the amount of the loan.

According to the taxpayer, organization's purpose was to advocate for improved public education. On its Form 990 for Year 3, the organization reports that it engaged in political campaign activity in connection with a certain candidate, who was running for an elective public office. Specifically, the organization states it spent funds to promote the election of the candidate.

LAW AND ANALYSIS

Section 166(a)(1) allows a deduction for a debt which becomes worthless within the taxable year. Section 271 provides, however, that the deduction under section 166 is not allowed for worthlessness of any debt that is owed by a political party.

Under section 271(b)(1), a political party is defined as:

- (A) a political party;
- (B) a national, State or local committee of a political party; or
- (C) a committee, association, or organization which accepts contributions or makes expenditures for the purpose of influencing or attempting to influence the election of presidential or vice-presidential electors or of any individual whose name is presented for election to any Federal, State, or local elective public office, whether or not such individual is elected.

Under section 271(b)(2), the term "contributions" includes a gift, subscription, loan, advance, or deposit, of money, or anything of value.

Under section 271(b)(3), the term "expenditures" includes a payment, distribution, loan, advance, deposit, or gift, of money or anything of value.

Treas. Reg. § 1.271-1(b), further provides that an organization is not a political party if it engages in activities related to an election campaign that are truly nonpartisan in nature.

For example, a committee or group will not be treated as a political party if it is organized merely to inform the electorate as to the identity and experience of all candidates involved, to present on a nonpreferential basis the issues or views of the parties or candidates as described by the parties or candidates, or to provide a forum in which the candidates are freely invited on a nonpreferential basis to discuss or debate the issues.

An organization's qualification as an organization described in section 501(c)(4) is independent from the definition of a "political party" for purposes of section 271. Section 271 defines political party without reference to any other Internal Revenue Code section or regulation and without regard to tax status. A committee, association or organization, whether it is taxable or tax-exempt, that accepts contributions or makes expenditures for the purpose of influencing or attempting to influence the election of a candidate for elective public office is a political party under section 271.

Section 271 was enacted to close the loophole that allowed supporters of political parties to claim a bad debt deduction for otherwise disallowed political contributions by disguising them as loans. See 98 Cong. Rec. 8279 (1952). An organization is a political party under section 271 if it accepts contributions or makes expenditures for the purpose of influencing or attempting to influence the election of a candidate for elective public office.

Based upon the facts reported on the organization's Form 990, the expenditures made by the organization were made for the purpose of influencing or attempting to influence the election of a candidate for elective public office, and therefore, the organization meets the definition of a political party under section 271. Consequently, the taxpayer may not claim a worthless debt deduction under section 166 for the debt owed by the organization.

This advice applies only under the facts and circumstances described herein.

Pursuant to section 6110(k)(3) of the Code, this document may not be used or cited as precedent. Please call (202) 317-7005 if you have any further questions.