



## Policy and Process Considerations When Setting Up Operations for a 501(c)(4) Organization

**Overview:** This resource provides a high-level overview of key operational considerations for running a 501(c)(4) organization. It is not intended as a step-by-step guide for creating or managing dual entities. Instead, it offers a case study of how the Children's Equity Fund approached the development and management of its organizations based on what worked best for us.

This resource is designed with the following assumptions in mind:

- You are establishing a 501(c)(4) as a sister organization to an existing 501(c)(3) private foundation.
- Your foundation already has some core policies and procedures in place.
- Staff will be shared between the two organizations.

With these assumptions, our goal is to provide a helpful starting point for informed conversations and strategic planning — not to overwhelm. While we did not create specific IT policies and procedures, our IT team played a critical role in supporting the development of systems for various other policies and processes. They were instrumental in implementing time-tracking systems, calculating cost-sharing for IT-related products, and diversifying platforms for use across multiple entities.

That said, a robust IT team is not essential for every c3/c4 setup. In our case, the complexity of our systems made their support highly valuable. It's possible to achieve effective data tracking using less complex systems, depending on the organization's needs.

**Please note:** This resource does not cover the technical steps of establishing a 501(c)(4), such as obtaining an EIN, drafting bylaws, or filing IRS Form 8976. However, we're happy to support you in navigating those early steps if needed. Additionally, this resource is for informational purposes only and does not reflect an attorney-client relationship. The information herein is not a substitute for expert legal, tax, or other professional advice tailored to your specific circumstances.

If you have questions about any of the policies or procedures mentioned in this resource, please reach out to Julia McKay.

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## Governance

**By-Laws:** Some states have sample by-laws on the Secretary of State's website or elsewhere. If there is an existing 501(c)(3) organization, it is worth considering using the same or similar by-laws for the 501(c)(4). This could reduce possible confusion from operating two organizations under different governing procedures.

**Cost Sharing Agreement:** Have a written agreement (and follow it!) to make sure the 501(c)(4) pays at least its share of costs (e.g., staff time, equipment costs, office space, etc.) so that the 501(c)(3) does not subsidize the 501(c)(4).

**Separate Board Meeting Minutes:** Boards for each entity should meet separately (even if there are overlapping members) and meeting minutes should always be recorded and maintained separately.

## Finance and Investments

**Business Expense and Travel:** Set some rules and guidance for how staff keep business expenses separate, including protocols for corporate credit cards, reimbursements, and business travel. Be sure to provide clarity on how to handle "tricky" scenarios such as one business trip involving both (c)(3) and (c)(4) activity.

**Political Activity Tax Payment:** If your organization has investment income and conducts political activities, it may be subject to a tax. Determine if this applies, and plan for tracking, calculating, and submitting tax payment if applicable.

**Budgeting and Budget Monitoring:** Once you have budgets for more than one entity, it's helpful to plan ahead for who, how, and when spending against each budget is set, approved, and reconciled if needed.

**Year End Close-Out:** In a multi-entity organization, set some parameters for how your finance team conducts close-out to make sure all expenses are tracked to the correct entity, and any inter-entity loans, grants, and/or lines of credit are in order.

**Annual Audit:** Plan for the annual audit process including ensuring the organization has the information it needs to report on lobbying and political activity expenses.

**Managing Funding Between Organizations:** Affiliated 501(c)(3) and 501(c)(4) organizations may provide funding to one another via grants, loans, and/or lines of credit. Specific rules apply to each scenario and the organization should create clear, written guidance for any method that it pursues.

While we chose to do a line of credit between our two organizations there are various methods on how to do a similar thing in practice, such as grants or loans between organizations, all of which come with their own legal and compliance ramifications.

## Staffing

**Time Tracking / Time Approval:** 501(c)(3) and 501(c)(4) organizations can share staff as long as there are systems put in place to prevent any payment or subsidizing by the (c)(3) of the (c)(4)'s costs. Generally, an employee time tracking system is the most efficient and reliable way to do this for staff-related costs.

**Process for Recording and Tracking Shared Staff Activities:** If some staff are being shared across entities, it's helpful to establish a process to document who is working for each entity with start dates. This helps make sure relevant costs are being captured, staff are receiving onboarding/training before joining the 501(c)(4), and can be a helpful reference in case of an audit or other review.

**Job Description Language:** Less compliance related and more of a time and staff management tool — it is helpful to think through staff time and activities for those working for multiple entities and reflecting the full scope of responsibilities in official job descriptions.

**Establishing a Common Paymaster:** Some organizations that share employees may be able take advantage of the “common paymaster” rules, where one of the entities takes responsibility for paying employees of both/all entities — managing the taxes, benefits, and forms that come along with payroll.

**Reviewing Employee Benefits:** When sharing employees across multiple entities, take a look at your retirement plans, health care, and other benefits to make sure shared employees or non-(c)(3) employees will still be eligible — or make contingency plans.

## Grantmaking

**Grantmaking Process:** A defined grantmaking process for a 501(c)(4) organization ensures that funding decisions align with the organization's mission, legal obligations, and strategic goals. It also promotes transparency, accountability, and consistency in how grants are awarded and managed.

**Political Grantmaking:** We established a separate political activity grantmaking process to ensure full compliance with regulations related to political giving. This approach also allows us to track and manage our political spending more easily.



## Compliance and Legal

**Conflict of Interest (COI) — Staff and Board:** Having a conflict of interest process is necessary for a 501(c)(4) to ensure that decisions are made in the best interest of the organization and not influenced by personal gain. It also helps maintain transparency, accountability, and public trust in the organization's operations and governance. Staff who work for more than one entity should be completing COI disclosures for each entity they conduct work for.

**Filing Reportable Activity Process:** While all political activity must be tracked for IRS reporting purposes, certain types may also trigger additional campaign finance disclosures. Similarly, some forms of lobbying may require further reporting under the federal Lobbying Disclosure Act (LDA) or under applicable state and local lobbying laws. Having a process for identifying, vetting, and designating responsibility for any such reporting helps make sure nothing gets missed.

**Political Activity Policy:** Political activity is a powerful tool for systems change that can involve a higher level of reputational, legal and compliance risk than other 501(c)(4) activities. Having a policy to help determine when, where, and how to engage in political activity helps ensure that it is used effectively and compliantly.

**Interaction with Government Officials Policy:** There are various rules that come into play when interacting with government officials that are impacted by political activity and lobbying. A staff guide on how to best manage interactions with government officials can help support compliance.

**State and Local Lobbying:** Each state has its own lobbying definitions and disclosure requirements. Understanding the rules and having a process for vetting and managing activities through this lens helps maintain compliance while allowing staff to do their jobs effectively.

**Federal Lobbying:** Some federal lobbying activities may lead to the organization needing to register and report under the LDA, so read up on this before you get started.



## Communications

**Brand Guidelines:** Brand guidelines are essential for a 501(c)(4) to ensure consistent messaging, visual identity, and tone across all communications, which helps build trust and recognition among supporters and the public. They also help distinguish the organization from affiliated entities, maintaining legal and strategic clarity.

Depending on your scenario, consider a licensing agreement for use of the 501(c)(3) organization name/logo.

**Political Communications:** Although a 501(c)(4) may engage in political communications, several factors must be considered to determine what is permissible, and some types of communications may lead to reporting and/or disclosure requirements.

**Joint and/or Linked Websites:** The IRS holds organizations accountable not only for their own website content but also for the content of any sites it links to, which is especially important for 501(c)(3) entities that must avoid linking to lobbying or political activities. To minimize risk, both organizations should link only to home pages, avoid direct links to political content, and regularly monitor existing links to ensure compliance.

**Separate Email Addresses:** Using separate email addresses helps ensure that both internal and external contacts know which organization they are engaging with, and helps avoid confusion or misattribution of prohibited activities (i.e., lobbying or political activity) to the 501(c)(3).

**List Sharing:** Lists are considered items of value and therefore may not be shared freely across entities. It's ideal for organizations to create their own lists, but otherwise, options exist to rent or sell the list at fair market value to an affiliated organization.

