

Philanthropy & Funding

Breaking Out of the c3 Box

The tax code should not dissuade donors from maximizing their impact by supporting 501(c)(4)s.

By Rob Hansen & Dorian Warren | Summer 2025



(Illustration by David Plunkert)

This year in Washington, DC, lawmakers will clash over the expiration of the 2017 Tax Cuts and Jobs Act. It will be a real fight—a fight for power and a fight over money. The fate of five million children unnecessarily living in poverty in the richest country on Earth will be decided by these representatives.

Corporations understand the stakes for their interests. They are treating it as a battle and have already hired their lobbyists and made their campaign contributions over multiple cycles to get the outcome they want.

But most of our 1.5 million nonprofits and those who support them have little voice in this fight. Fortunately, there is still time to act. Should the nonprofit community and its supporters wake up and activate our available tools

of advocacy, power-building, lobbying, and voter engagement, they could change the lives of the millions of Americans who depend on them.

In the United States, we in the social sector have identified the problems that require fixing but have let ourselves be constrained by the c3 box—referring to the 501(c)(3) portion of the US tax code that governs charitable organizations. In that box, it's harder to ask the question: *How can we solve the problem for*

everyone? Or as the executive director of a food bank in the South told one of us, “How do I shorten, and even *eliminate altogether*, the line of hungry folks needing food?”

Why have the enormous sums invested in charitable giving over the years had so little impact on poverty? Our tax system is at the root of the problem. It creates incentives for donors to make all their contributions compliant with 501(c)(3) to avoid taxes, thereby limiting their effectiveness in addressing large-scale problems. To tackle poverty, we must have more instruments in our toolbox—c3 activities are part of the solution but not sufficient to generate social change by themselves. Charitable donors, if they care about having real impact, should give more of their money to 501(c)(4) organizations that can lobby for change, even if they lose their tax deductions in the process.

Similar Gifts, Different Results

Americans gave \$557 billion to charities in 2023. Such annual giving, unfortunately, has proven inadequate when confronted with the realities of social need in the United States. A chief reason for this is the constrained c3 box in which strategic philanthropy—and the social sector as a whole—operate.

Congress began **to codify restrictions on lobbying by charities in 1934 and clarified these restrictions in 1954** with a broad definition of 501(c)(3) nonprofit organizations. These regulations have changed little in the past 70 years, other than some further restrictions on private foundations in 1969. Under the law, 501(c)(3)s can still lobby, so long as it’s not a substantial part of their activities. Too much lobbying, the **IRS states plainly**, “risks loss of tax-exempt status.” So, for a nonprofit that is on the front lines of its community, and particularly well-informed about what could benefit its constituents, it’s unfortunately safer to hand out sandwiches and make general statements about the problem of hunger than to lobby the government for better food policies.

Money, for the most part, is raised, not given. Nonprofit leaders should go to their closest donors and make the case for solving systemic problems through c4 giving and action. These supporters should become founding donors of the effort.

The unwritten agreement is: If you want your tax deduction, leave the system alone. And we in the social sector have taken Congress up on this deal in droves: There are more than 1.5 million 501(c)(3) organizations, with more than 100,000 added each year.

It doesn't have to be this way. In fact, the tax code already provides another path, the next line in the tax code: 501(c)(4). By supporting a c4 nonprofit, you can fully fund lobbying. A c4 can speak directly to those in power about how to improve the system under which we all live.

A c4 can almost never offer donors charitable tax deductions, but that is not as significant as it seems. Consider the following two nonprofit gifts:

(1) A \$100K c3 gift that costs \$75,000 after a \$25K tax deduction.

(2) A \$75K c4 gift that costs \$75,000, no additional action required.

The two above gifts are economically equal. But they are not the same in their impact. In fact, *the impact of c4 spending vastly outweighs that of c3 spending*. If Goodnation Action and Community Change Action—the c4s we lead—succeed in securing an expanded federal Child Tax Credit in 2025, the US child poverty rate will be cut in half and \$100 billion annually will go directly into family budgets. Every dollar donated will have a thousandfold return every single year the policy is in place.

Moreover, *the c3 tax deduction isn't free*. The c3 tax deductions we provide donors are costly. Calculated at 25 percent, the \$557 billion given to c3s in 2023 cost the US treasury and public \$140 billion.

How many in the social sector have done this simple impact math? Apparently very few: There are 1.5 million c3s in the United States but merely 72,000 c4s—a 20:1 ratio.

Almost 20 years ago, Dorian's organization, Community Change, was an early national innovator in the creation of a c4 organization. Since that time, Community Change Action has helped drive policy changes with a direct impact on poverty, including the Affordable Care Act, the Deferred Action for Childhood Arrivals program, and the expansion of child tax credits at state and federal levels.

Many of Community Change's local partners have used c4 tools to mobilize their communities and win dramatic advances in public policy that have brought tangible changes to people's lives. In **New Mexico**, for example, Organizers in the Land of Enchantment (OLÉ) used their c4 vehicle to pass a state constitutional amendment that created a dedicated funding source for early childhood education, along with free childcare for a majority of the state's families and hefty pay increases for early educators.

Minnesota Faith in Action is a c4 affiliate of the community organization ISAI AH, which was built to create a new people-centered politics in Minnesota rooted in abundance. Minnesota Faith in Action used its lobbying muscles to help legislators enact a series of policies in 2023, including paid family leave, free school lunches for all children, and a \$1 billion increase in the state's childcare budget.

And Goodnation's Prosperity Project, a national donor coalition and fund, focused on expanding the federal Child Tax Credit through c3 activities, such as supporting clinics for more low-income taxpayers to access credits they are due, as well as c4 activities such as lobbying Congress. The last time the federal Child Tax Credit was expanded, in 2021, child poverty was cut in half.

Thriving Outside the Box

This dynamic is not lost on leaders of c3 organizations serving low-income communities. Many of them recognize that without c4 vehicles, their communities can't have a full voice in public life. But barriers to acting on that knowledge remain.

The first is administrative: Establishing and maintaining a c4 is expensive and time-consuming. A simpler option is fiscal sponsorship, which can work for c4s as it does for c3s. The fiscal sponsorship arrangement is a governing contract that allows a person or entity to conduct c4 activities under the fiscal sponsor's c4 umbrella, which includes all required board oversight, accounting, and compliance. Rob founded Goodnation Action as a c4 fiscal sponsor, and many others exist in the marketplace.

The greatest obstacle, however, is raising money, because our system is so biased toward c3 giving. Donors need to step up, and we next offer a pathway for engendering such bold and necessary action.

Money, for the most part, is raised, not given. Nonprofit leaders should go to their closest donors—their board members and longtime contributors—and make the case for solving systemic problems through c4 giving and action. These supporters should become founding donors of the effort and, in their capacity as fundraisers, help raise the profile of the c4's work and educate more donors about the bold and scaled solutions a gift can lead to when applied to c4 work.

Let's imagine that an additional 1 percent of giving (\$5.5 billion) goes to c4s to lift the voices of communities across the country and advocate for changes to all of the policies we live under. This relatively small c4 expenditure would roughly equal the total amount currently spent on lobbying state and federal governments (\$5.6 billion). Imagine entering the tax debates in Washington and state capitols with that kind of force. Consider the victories that could be won for the communities we represent across the country.

Let's get to work and wake this sleeping giant. When we do, the communities we serve will win. Why? Because behind our 1.5 million nonprofits are millions of donors and tens of millions of voters.

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*Read more stories by **Rob Hansen** & **Dorian Warren**.*

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