

E-ALERT | Election and Political Law

July 11, 2011

THE MORE THINGS CHANGE, THE MORE THEY STAY THE SAME – PART II

The hand-wringing and teeth-gnashing over the possible application of the federal gift tax to large transfers to 501(c)(4) social welfare organizations that we described in our [E-alert](#) of May 13, 2011 has now come to a satisfying conclusion.

In a widely hoped for move, the IRS last week announced that it is terminating all gift tax audits relating to transfers to social welfare organizations. In addition, and potentially more significantly, the IRS announced that there will be no more such audits until the matter has been studied by the IRS and that any future enforcement of the gift tax will be prospective only after notice to the public.

There are at least two significant consequences of the IRS announcement.

1. Individuals who previously made large transfers to 501(c)(4) social welfare organizations can relax -- their transfers will not be subject to the gift tax.
2. Given the announcement that there will be no enforcement until after notice to the public and that such enforcement will be prospective only, individuals can comfortably continue to make large transfers to social welfare organizations until notice is given to the contrary. As a consequence, it seems reasonably certain that money will continue to flow into social welfare organizations that engage (to the extent they are permitted to) in election-related activity in the run-up to the next election cycle.

Covington stands ready to advise individuals and social welfare organizations with respect to proposed transfers.

Covington provides sophisticated advice to individuals, multinational corporations and not-for-profit entities in the application of the tax laws to various types of transactions. These matters include the successful resolution of domestic and international tax controversies, IRS attempts to revoke exempt organizations' tax exemptions, very large case audits, administrative appeals, and litigation involving a broad spectrum of subject matter areas.

If you have any questions concerning the material discussed in this client alert, please visit our [website](#) or contact the following members of our Election and Political Law or Tax practice groups.

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