**Module 7**

**Expenditure Test: Sample Calculation #1**

**PowerPoint Script**

**Slide 1: Calculation #1**

Let’s work through an actual calculation to illustrate how the expenditure test works. Assume ABC Charity has made a 501(h) election and makes the following expenditures for the year:

* + Non-lobbying expenditures: $300,000
  + Direct lobbying expenditures: $50,000
  + Grassroots lobbying expenditures: $10,000

Does ABC charity have to pay a penalty for excessive lobbying expenditures?

**Slide 2: Calculation #1 Cont’d.**

The first step is to calculate the ABC Charity’s total exempt purpose expenditures which is:

* Total exempt expenditures = non-lobbying expenditures + direct lobbying expenditures + grassroots lobbying expenditures
* $360,000 = $300,000 + $50,000 + $10,000

The total exempt expenditures is $360,000

Next, we have to calculate the total lobbying expenditures for the year which is just adding the direct and grassroots lobbying expenditures to come up with $60,000.

**Slide 3: Calculation #1 Cont’d.**

Now it just a matter of finding the applicable percentages. Because ABC charity’s exempt purpose expenditures ($360,000) are less than $500,000, the applicable lobbying percentage is 20%. Take the lobbying percentage and multiple that by ABC Charity’s total exempt purpose expenditures to come up with the lobbying nontaxable amount of $72,000. This is the maximum amount that can be spent on lobbying for the year.

The grassroots applicable percentage is 5% because, again, the total exempt expenditures did not exceed $500,000 for the year. Multiplying that exempt purpose expenditures by the percentage yields the grassroots nontaxable amount of $15,000.

**Slide 3: Calculation #1 Cont’d.**

Now lets see if ABC Charity has to pay a penalty for the year. The answer in this case is No. Its lobbying expenses of $60,000 did not exceed the nontaxable ceiling of $75,000 and its grassroots lobbying expenses of $10,000 did not exceed the grassroots ceiling of $15,000.

No penalty is due.