527 Groups: An Overview

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Points of View Reference Center

The problematic intersection of politics and money has a long history in the American electoral system. The issue has once again gained a high profile in light of disclosures regarding campaign finances in the past few major elections. The funding behind 527 groups has become a major target of scrutiny and speculation.

527 groups are tax-exempt political organizations. Their activities include political advocacy at all levels of the electoral system, but their role at the federal level has attracted the most attention. One of their main sources of contributions is "soft money," or money that is donated in such a way as to circumvent federal campaign financing laws. The demand for increased regulation of financial contributions to 527 groups is part of the wider movement to reform campaign financing.

Although widely perceived to have a negative influence on the American political landscape, money is essential to informing constituents of a candidate's or political party's orientation and goals. Those seeking funding reform want to place limits on the uses of financial contributions in order to prevent political groups from having unfair political leverage on the basis of their wealthy supporters. Full disclosure of contributions, rather than more restrictive laws, is viewed by many as a key to overcoming the current campaign funding system.

Money has become an essential component of any political campaign in the United States, and the major concern is that contributions are being used to influence the democratic process unfairly. The aim of campaign finance reform is to reduce this influence in accordance with the regulations of the Federal Elections Commission. Reform advocates argue that 527 groups need greater oversight over the amounts, sources, and uses of the money they receive.

The issue of campaign finance reform and the financial regulation of 527 groups requires a contemplation of some of the fundamental tenants of democracy. With its aim to serve the public interest, a democracy must be accountable to the entire public and not just those with expendable wealth. Reformers believe that, if campaign finances are not kept in check, then the democratic process will be subverted as public interest is relegated to an inferior position. At the same time, large amounts of funding remain a necessary tool for politicians and political groups seeking to make their message and policies known to the public.

Understanding the Discussion

Disclosure: The act of making information known. In this case, disclosure refers to the sources and amounts of political donations or campaign financing.

Express Advocacy: Public support for an issue or a candidate's election or defeat.

Federal Election Campaign Act: A 1971 law that governs the financing of federal elections.

Federal Elections Commission: A regulatory agency created in 1975 to monitor the finances of federal elections as established by the Federal Election Campaign Act of 1971. Duties include monitoring campaign finances and enforcing prohibitions on contributions.

Political Action Committees (PACs): Organizations established to help elect or defeat candidates for political office, with the aim of promoting particular legislation or special interests that it supports. Unlike 527 groups, not all PACs exist outside of Federal Election Commission jurisdiction.

Soft Money: Political contributions that circumvent the federal campaign financing regulations. While such contributions are supposed to be used for general political party activities, it is not uncommon for them to end up benefiting a particular candidate.

Special Interest Groups: Political entities that attempt to influence the election process by supporting or challenging a particular candidate or issue.

History

Concern over the unfair influence of money in the American political system goes back to the country's foundation, as does the goal of lessening the conflict between the rights of voters and the influence of wealthy corporations and individuals. Successive laws have been put into effect with various aims, from making the electoral system more transparent to limiting the amount of financial contributions. Milestones in campaign reform include the short-lived 1907 congressional prohibition on corporate contributions to federal candidates and the Corrupt Practices Act of 1925, which attempted to limit the amount of money that candidates could spend in their campaigns. Loopholes and changes in campaigning strategies have necessitated new rules and restrictions.

In 1971, Congress passed the Federal Election Campaign Act (FECA) and amended it in 1974. The amendments, which included provisions for limiting campaign expenditures and individual contributions to candidates, proved more effective than previous measures. FECA also established the Federal Elections Commission (FEC) to oversee the election process, a job which had previously been carried out by the Department of Justice.

While affirming much of the amended FECA, the Supreme Court in Buckley v. Valeo (1976) did not, notably, maintain limits on campaign expenditures. This court case was also significant because it differentiated between express advocacy and issue advocacy and stated that the FEC could control the former but not the latter. However, political action committees (PACs) frequently abused this distinction and essentially advocated for a candidate's election or defeat while avoiding those words.

527 groups came into existence in 1975. They are named after Section 527 of the Internal Revenue Code. The section imparts tax-exempt status for 527 groups at all levels of the political system, from local to national. Monitoring of 527 groups falls under the jurisdiction of the

Internal Revenue Service (IRS) rather than the FEC. Overall, 527 groups derive tax benefits while evading federal regulations.

Although Congress had placed restrictions on soft money contributions, the restrictions were repealed in 1979 when it became evident that political parties were not able to adequately finance their 1976 campaigns. As a result, the political system was flooded with soft money, eroding the efficacy of the FECA.

The original tax status of 527 groups offered political candidates and organizations many advantages. The type of donors were not limited, nor was the amount of their contributions. Moreover, 527 groups were not restricted in their spending. They were not required to make disclosures about donations to the IRS or to the FEC. They also engaged in issue advocacy that could hardly be distinguished from express advocacy. Such lack of restrictions led to the popularity of 527 groups in the 1990s and, subsequently, the controversy over their political influence.

In response, Congress enacted laws intended to make the finances of 527 groups more transparent. New legislation required 527 groups to disclose information about donations to the IRS, and the IRS was in turn obliged to disclose the information to the public. At the time, it seemed that major loopholes allowing the unfair influence of money on the American political system had been closed.

527 Groups Today

The presidential elections in 2000 and 2004 brought the controversy over 527 groups to the forefront once again. 527 groups gained a particularly high profile in the 2004 election, particularly the MoveOn.org Voter Fund and Swift Boat Veterans For Truth.

In addition to running voter registration and mobilization campaigns, 527 groups engaged in widespread issue advocacy that at least bordered on express advocacy in both the 2000 and 2004 presidential elections. One of the main controversies stemmed from the hidden flow of money from the local and state levels to the federal level, since 527 groups were not obliged to disclose financial information at the federal level if they had already disclosed it at the state level.

In response, a flurry of campaign finance laws were proposed, including the Bipartisan Campaign Reform Act (2002) and the 527 Reform Act (2006). 527 groups were widely decried as hostile to democracy. These laws aim to improve the disclosure of donations that 527 groups receive and, in some cases, to limit contributions. They also seek to bring these donations under better control of the FEC and monitor whether the 527 groups coordinate illegally with candidates. State governments also began to place more stringent demands on 527 groups.

Perhaps as a result of these increased restrictions, the amount of money reportedly spent by 527 groups during the 2008 federal elections was lower than that of the 2000 and 2004 elections. However, the groups remained responsible for a significant portion of many federal campaigns' funds, and their influence over state elections remained steady.

Both liberal and conservative 527 groups contributed a combined $420 million toward their candidates during the 2006 election cycle. This number increased to $560 million in the 2010 election cycle. A total of 325 federally-focused 527 organizations were active during the 2010 elections. Some of the largest contributors included the Service Employees International Union, the United Food & Commercial Works Union, and Pharmaceutical Product Development Inc. Because the finances of 527 groups are by nature difficult to track, their actual financial influence in the funding of political campaigns in 2010 may have been greater than these statistics seem to signify.

In addition, an increased focus on the political influence of 527 groups caused a movement of political funding to other types of organizations. For example, many non-profit advocacy groups with 501(c)(4) tax status spent millions in support of both Democratic and Republican senate races in 2010. This trend continued in the run-up to the 2012 presidential election. Following the 2010 Supreme Court ruling Citizens United, which opened the doors for independent expenditures, Super PAC and 501 (c) status groups like American Crossroads/Crossroads GPS and Restore Our Future were able to spend well into the $100 million range.

Outside independent spending on the 2012 presidential election totaled over $1 billion. The Service Employees International Union continued to be a major contributor to federally-focused 527 groups during the 2012 cycle, with the National Association of Realtors, and the Plumbers/Pipefitters Union also ranking as top contributors.

In 2015, the Center for Responsive Politics found that the 2014 midterm election the costliest ever (with liberals spending $374.4 million and conservatives spending $346.2 million) and that outside independent spending constituted a larger percentage of campaign spending than in past elections. At the same time, about 3,600 fewer individual donors to outside spending groups like 527s could be identified than for the previous midterm election in 2010.

As of a May 2, 2016, IRS data release, the 527 committees that had spent the most on the 2016 election were ActBlue ($23 million), the John Kasich superPAC New Day for America ($12.54 million), EMILY's List ($9.61 million), the Scott Walker PAC Our American Revival ($7.09 million), the College Republican National Committee ($6 million), and the Service Employees International Union ($5.8 million). Meanwhile, the top five institutional contributors to 527 groups up to that point were Bernie 2016 at $5.84 million and the Service Employees International Union at $5.68 million, followed by Good Ventures at $2 million, the American Federation of Teachers at 1.92 million, and Rockport Capital Inc. at $1.74 million.

The debate over campaign finance and the intersection of money and politics in American democracy is not likely to end soon. As new laws are enacted, political advocates will inevitably test them and search for loopholes in order to exert a desired influence. From one perspective, money has a negative influence on the political process because it gives undue clout to the wealthy. From another perspective, however, money is viewed as a means of engaging in the political process, allowing individuals to advocate for the issues which most concern them.