

The One-Third Rule

1. What is the “one-third rule” and when does it apply?

The so-called “one-third” rule set forth in the Federal Election Commission Regulations applies to corporate sponsored fundraising events held to raise voluntary contributions to Federal political action committees where the event involves prizes or entertainment. As such, it applies to RPAC fundraising events sponsored by NAR or state or local associations because 30% of each RPAC contribution is forwarded to Nation RPAC to support Federal candidates.

2. What is the reason for the one-third rule?

The one-third rule is intended to prevent a corporation from giving contributors prizes, merchandise or entertainment at events like raffles, dinner-dances, auctions and the like “in exchange” for voluntary individual political contributions. Since an incorporated Board of REALTORS[®] may use corporate monies to pay the costs of conducting an RPAC fundraising event, such as an “exchange” might appear to occur if prizes or entertainment were provided to attendees of approximately the same value as the total contributions made by those individuals in attendance. Thus, the rule prevents the sponsor from providing to contributors prizes or entertainment in exchange for personal PAC contributions where the total amount contributed does not significantly exceed the value of the prizes or entertainment. The rule accomplishes this by establishing a “threshold” relationship between costs incurred in connection with the event and total contributions made by those in attendance.

3. How does the one-third rule work?

In order to prohibit such “exchanges” of corporate money or merchandise for personal PAC contributions, the rule provides that a sponsor’s costs (exclusive of food, beverage and facility expenses, but including professional entertainment expenses) incurred in conducting a fundraising event offering prizes or entertainment, like a raffle or an auction, may not exceed one-third of the total contributions made by contributors at the event. Stated conversely, the event must result in total contributions not less than three times the costs of prizes and entertainment. If that amount of contributions is not achieved, the sponsor must be reimbursed by the PAC in an amount necessary to reduce the net “expenditure” (for merchandise and entertainment) to one-third of the contributions collected.

4. Can you provide an example?

Assume, for example, a Board spent \$400 for items to be raffled off at a fundraising event and collected \$1200 or more in contributions at the event. No reimbursement would be necessary because one-third of the fundraising proceeds (one-third of \$1200, or \$400) is equal to the Board’s costs. But if the Board collected only \$900 in contributions, it would have to be reimbursed for the amount by which the expenses (\$400) exceeded one-third of the contributions collected ($\$900 \div 3 = \300), or \$100.

[This calculation is complicated by the fact that this formula only applies to the National RPAC portion of the contributions, and any reimbursement must be made by National RPAC. In this example, National RPAC's portion of the total contributions is 30% of \$900, or \$270, and one-third of that amount is \$90. Similarly, National RPAC's allocable portion of the "expenditures" allocable to raising Federal PAC funds is 30% of \$400, or \$120. Thus this example would require reimbursement by National RPAC of \$30, which is the difference between \$120 and one-third of \$270 (\$90.00).]

It is important to recognize two points in making these computations: (1) Each prize need not satisfy the one-third standard individually as long as the costs of all items and contributions received for them do so collectively. (2) In computing the Board's costs of the prizes distributed via the event, items donated to the Board must be valued at their fair market value, since even though such items may have been acquired by the Board without cost they have a market value and thus constitute an asset of the Board with that fair market value.