



Person to Contact: [Redacted]  
 Telephone Number: [Redacted]  
 Refer Reply to: [Redacted]

Date: MAR 26 1986

**CERTIFIED**

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 501(c)(4) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [Redacted] under the nonprofit corporation laws of the State of [Redacted].

As stated in your By-Laws, your purpose is to own, maintain and operate a social and recreational club, not for profit but solely for the mutual advantage to be derived therefrom of its members; to present a unified effort to the members in protecting the value of the property owned by the corporation; to engage in such other activities as may be to the mutual benefit of the owners of the lots of [Redacted] addition to the City of [Redacted] County, [Redacted], therein after called [Redacted]; and for the purpose of maintaining a recreational area located in [Redacted].

As stated in Form 1024 application:

- (a) In order to be a member of your organization a person must be an owner of a lot in [Redacted].
- (b) Your funds will be spent to purchase lots for a tennis court and to maintain the court and lots.
- (c) Your expenses include payments for real estate taxes, lawn care, insurance and water.
- (d) Your tennis court is valued at \$[Redacted].

Section 501(c)(4) of the Internal Revenue Code grants exemption to civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Code	Initiator	Reviewer	Reviser	Reviser	Reviewer	Reviewer
	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Surname	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Date	[Redacted]	2/25/86	3/21/86	3/24/86	3/25/86	[Redacted]

Section 1.501(c)(4)-1 of the Income Tax Regulations states (a) Civic organizations-(1) In general. A civic league or organization may be exempt as an organization described in Section 501(c)(4) if--

(i) It is not organized or operated for profit; and

(ii) It is operated exclusively for the promotion of social welfare.

(2) Promotion of social welfare - (i) In general. An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements. A "social welfare" organization will qualify for exemption as a charitable organization if it falls within the definition of "charitable" set forth in paragraph (d) (2) of Section 1.501(c)(3)-1 and is not an "action" organization as set forth in paragraph (e)(3) of Section 1.501(c)(3)-1. (ii) Political or social activities. The promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. Nor is an organization operated primarily for the promotion of social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of its members, or is carrying on a business with the general public in a manner similar to organizations which are operated for profit. A social welfare organization may qualify under Section (c)(4) even though it is an "action" organization described in paragraph (e)(3) (ii) or (iv) of Section 1.501(c)3-1 if it otherwise qualifies under this Section.

The Internal Revenue Service takes the position that in order for an organization to qualify for exemption from Federal Income Tax as a social welfare organization described in Section 501(c)(4) of the Code, it must be primarily engaged in promoting in some way the common good and general welfare of the community as a whole.

Revenue Ruling 74-17, 1974-1 C.B. 130 holds that an organization founded by the unit owners of a condominium housing project to provide for the management, maintenance and care of the common areas of the project, as defined by State statute, with membership assessments paid by the unit owners does not qualify for exemption under Section 501(c)(4) of the Code.

Revenue Ruling 74-99, 1974-1 C.B. 131, which modified Revenue Ruling 72-102, holds that a homeowners association formed in conjunction with a real estate development is prima facie presumed to be operated for the private benefit of its members. In order to overcome this presumption, a homeowners association must have the following characteristics:

1. It must serve a "community" which bears a reasonable recognizable relationship to an area ordinarily identified as governmental.

2. It must not conduct activities directed to the exterior maintenance of private residences; and
3. The common areas or facilities must be for the use and enjoyment of the general public.

Your activities are clearly designed to benefit only the lotowners in [redacted] and not the public in general.

Accordingly, we hold that you are not an organization operated exclusively for the promotion of social welfare within the meaning of Section 501(c)(4) since you are not primarily engaged in promoting the common good and general welfare of the people of the community. Therefore, you do not qualify for exemption as an organization described in Section 501(c)(4) and are required to file Federal Income Tax Returns on Form 1120B or Form 1120.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 897, "New Organization Appeal Procedures for Adverse Determinations," which explains in detail your rights and procedures.

Please keep this determination letter in your permanent records.

If you agree with this determination please sign and return the enclosed Form 6013.

Sincerely yours,

[redacted]  
District Director

Enclosures:  
Publication  
Form 601