



Department of the Treasury
Internal Revenue Service
Southeast Key District (EP/EO)

Date:

Employer Identification Number:

Person to Contact:

Telephone Number:

In Reply Refer To:

CERTIFIED MAIL

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 and have determined that you do not qualify for tax exemption under that section. Our reasons for this conclusion and the facts on which it is based are explained below.

The evidence submitted revealed that you were incorporated on [REDACTED]. The purposes for which the Corporation was formed are to further the advancement of all breeds of purebred dogs. To do all in its power to protect and advance the interests of all breeds of purebred dogs and to encourage sportsmanlike competition at dog shows and obedience trails. To conduct dog shows and obedience trails under the rules of the American Kennel Club.

On [REDACTED] you amended your articles of incorporation. They now include a provision that prohibits inurement of the assets or profits of the corporation to the benefit of any director, officer or member within the meaning of section 501(c)(3) and provide that upon dissolution of the organization, assets shall be distributed for one or more purposes within the meaning of section 501(c)(3), as well as other provisions in the event the corporation is determined to be a private foundation within the meaning of section 501(c)(3).

The Internal Revenue Service considered your application for exemption from Federal income tax under Internal Revenue Code section 501(c)(7) in [REDACTED]. In a letter dated [REDACTED], you were advised that your organization did not meet the requirements for exempt status under section 501(c)(7) of the Code and that you failed to qualify for exempt status under any other subsection of 501(c). The only changes in the activities or operations of the organization since the [REDACTED] determination have been amendments to the Articles of Incorporation describes above, and annual donations to selected organizations that are exempt under section 501(c)(3).

You are a membership organization. The bylaws provide for one type of membership open to all women eighteen- (18) years of age or older who are in good standing with the American Kennel Club

and who subscribe to the purposes of the club. Membership is to be unrestricted as to residence. Your application states that applicants for membership must be active breeders and/or supporters of purebred dogs and must be willing to show dogs in dog show competitions and obedience clinics.

Your income is derived from membership dues, spring and fall dog shows, meetings and initiation fees, symposium on dog breeding, advertising revenue, and interest income.

You conduct [redacted] dog shows per year. The shows are conducted under rules of the American Kennel Club. Any person and/or organization whom has dogs registered with the American Kennel Club may participate by paying an entry fee. Participants compete for recognition towards "points" accumulated to achieve championship status for that specific breed of dogs. At 15 points a dog is considered a "champion". Champion status helps the owner breed and sell subsequent purebred offspring. Members of the general public may attend shows as spectators for a fee.

The following is a breakdown of income and expenses for the last [redacted] years:

	[redacted]	[redacted]	[redacted]
Gross Dues and assessments of members	\$ [redacted]	[redacted]	[redacted]
Gross amounts derived from activities related to Organizations exempt purpose	[redacted]	[redacted]	[redacted]
Investment income	[redacted]	[redacted]	[redacted]
Other revenue	[redacted]	[redacted]	[redacted]
Total revenue	[redacted]	[redacted]	[redacted]
Expenses attributable to activities related to the organization's exempt purpose	[redacted]	[redacted]	[redacted]
Expenses attributable to unrelated business activity	[redacted]		
Contributions, gifts, grants paid	[redacted]	[redacted]	[redacted]
Total expenses	[redacted]	[redacted]	[redacted]
Excess of revenue over expense	[redacted]	[redacted]	[redacted]

The organization, (hereinafter referred to as the Club), conducts [redacted] dog shows per year. The shows are conducted under rules of the American Kennel Club. Any person and/or organization who has dogs registered with the American Kennel Club may participate by paying an entry fee. Participants compete for recognition towards "points" accumulated to achieve championship status for that specific breed of dogs. At 15 points a dog is considered a "champion". Champion status helps the owner breed

dogs. At 15 points a dog is considered a "champion". Champion status helps the owner breed and sell subsequent purebred offspring. Members of the general public may attend shows as spectators for a fee. Your description of activities also included, "To be and become a strong voice for animal rights, specifically those concerning dogs of all breeds." Future activities include sponsoring a scholarship whereby an applicant can further their interest in animal medicine and/or animal welfare and protection.

Section 501(c)(4) of the Internal Revenue Code provides for exemption from Federal income tax for civic leagues, or other organizations, not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the income tax Regulations provides that 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 betterment and social improvements.

Section 1.501(c)(4)-1(a)(2)(ii) of the regulations provides that an organization is not operated primarily for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations, which are operated for profit.

Revenue Ruling 66-221, Cumulative Bulletin 1966-2 held that an organization whose primary activity is maintaining and operating a volunteer fire department for the benefit of the community is exempt from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 even though the principal source of its income is from operating social facilities for its members and holding regular public dances. A necessary incident to the operation of volunteer firefighting equipment is bringing together people interested in firefighting and binding them together in a working unit. This objective is frequently achieved by providing recreational and special facilities for the members of the organization and their guests. The fact that the organization's principal source of revenue is from its social activities is not determinative of whether the organization is primarily engaged in social welfare. Based upon the foregoing circumstances, it is concluded that the organization is primarily engaged in activities, which benefit the community as a whole. Its social activities are incidental to, and in furtherance of, its primary objective of operating a volunteer fire department. Accordingly, the organization is exempt from Federal income tax as a civic or social welfare organization described in section 501(c)(4) of the Code.

Revenue Ruling 68-45, Cumulative Bulletin 1968-1 held that a war veterans' post which is primarily engaged in social welfare activities may qualify for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 notwithstanding the fact that it receives a substantial portion of its funds from bingo games open to the general public. If an organization *primarily* engages in activities, which promote in some way the common good and general welfare of the people of the community, it will not lose its exemption from Federal income tax under section 501(c)(4) of the Code if it also engages in non-social welfare activities. The traditional activities of war veterans' posts have long been recognized as promoting social welfare in their respective communities. (The post's activities include veterans' programs and assistance to needy veterans, widows, and orphans. The post also conducts patriotic programs and participates in

community welfare programs such as providing and furnishing playgrounds for children and sports programs for teenagers).

Revenue Ruling 68-46, Cumulative Bulletin 1968-1 held that a war veterans' organization does not qualify for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 where it is primarily engaged in renting a commercial building and operating a public banquet and meeting hall having bar and dining facilities. Although the organization carries on veterans' programs and other benevolent, welfare, patriotic, and civic activities, it has been determined that the organization's business activities relating to the rental of the office building and meeting room space and the food and bar catering services exceeded all its other activities.

Revenue Ruling 78-131, Cumulative Bulletin 1978-1, held that a nonprofit organization whose purpose is to develop and encourage interest in painting, sculpture, and other art forms by conducting, in a noncommercial manner, a community art show qualifies for exemption as an organization operated exclusively for the promotion of social welfare under section 501(c)(4) of the Code. The organization described here conducts its annual art show in a noncommercial manner. The show features items created by local residents, regardless of whether they are amateur or professional artists. Although the organization charges an exhibitor's fee and a sales commission, the availability of a work for sale is at the discretion of the individual artist and is not a requirement for exhibition. Admission to the show is free, and most of the work is done by volunteers. Further, substantial space is made available to high school art students at no charge. Although some private interest is served by the organization when artists profit from the sale of their works, the organization is primarily engaged in promoting the common good and general welfare of the people of the community in view of the show's community orientation and participation.

In *Erie Endowment v. United States*, 316 F.2d 151 (1963) the Court held that the concept of social welfare suggests benefits affecting the community of people rather than a private group of citizens.

In *Commissioner v. Lake Forest, Inc.*, 305 F.2d [814] (1962) a non profit corporation formed to acquire and operate a low cost housing cooperative was held not to be exempt as a civic league or social welfare organization because it did not offer a program or service to benefit the community-at-large. Its contribution was not of a "public" character. Instead it was held to be a private cooperative undertaking for the benefit of its members, enabling them to save for a home, to satisfy their own material ambitions.

In *Peoples' Educational Camp Society, Inc v. Commissioner*, 331 F.2d 923 (1964) the court held that an organization may promote social welfare even though the particular services are limited to members, if it is clearly established that making services available to the particular group benefits the community as a whole.

The Club has amended its Articles of Incorporation to meet the organizational test of IRC 501(c)(3) and has also decided that if tax exempt status is granted that it will make more donations to organizations exempt under IRC 501(c)(3) and/or sponsor a scholarship program. An organization must be organized and operated exclusively for the promotion of social welfare in order to qualify under 501(c)(4). The club does not meet the operational test because its primary activity of conducting dog shows does not promote the common good and general welfare of the

people of the community by bringing about civic betterment and social improvement but rather amounts to carrying on business with the general public.

In contrast to the volunteer fire department which was determined to be exempt under IRC 501(c)(4) in Revenue Ruling 66-221, even though the principal source of its income was from operating social facilities for its members and holding regular public dances; the Club does not engage in a primary activity which promotes social welfare, with the dog show serving as a necessary incident to achieving its primary objective. The dog show itself is the organization's primary activity. Therefore, the Club's circumstances are similar to those of the veterans organization described in Revenue Ruling 68-46, that was determined not to qualify for exemption because its business activities exceeded all of its other activities.

Revenue Ruling 78-131 describes an organization that conducts an annual art show in a noncommercial manner. The show features items created by local residents, regardless of whether they are amateur or professional artists. Although the organization charges an exhibitor's fee and a sales commission, the availability of a work for sale is at the discretion of the individual artist and is not a requirement for exhibition. Admission to the show is free, and most of the work is done by volunteers. Further, substantial space is made available to high school art students at no charge. Although some private interest is served by the organization when artists profit from the sale of their works, the organization is primarily engaged in promoting the common good and general welfare of the people of the community in view of the show's community orientation and participation.

In contrast, [REDACTED] uses a commercial promoter for the dog shows. The dog shows are held in rented facilities. All participants pay an entry fee. All spectators pay an entry fee. A catalogue consisting of the dogs being shown is sold at the shows for a fee. The catalogue also contains paid advertisements. The club has consistently generated revenues in excess of related expenses in connection with the shows. Thus, the dog shows are conducted in a commercial manner. While the general public may receive some benefit from attending a show, participants in the show who receive points toward champion status are the primary beneficiaries. As in *Erie Endowment v. United States*, and *Commissioner v. Lake Forest, Inc*, the dog shows benefit a private group of citizens while the club does not offer any program or service to benefit the community-at-large. And, unlike the case of *Peoples's Educational Camp Society, Inc v. Commissioner*, the club has not clearly established that making services available to the particular group benefits the community as a whole.

As described in Revenue Ruling 68-45, the presence of some non-social welfare activities does not preclude exemption under IRC 501(c)(4) if an organization is *primarily* engaged in promoting social welfare. However, the Club's primary activity of conducting dog shows does not meet this requirement and all other activities of the Club are insubstantial and do not promote social welfare.

Based on the information submitted and the applicable law cited above, we conclude that you are primarily organized and operated to provide services for the personal benefit of your members and not primarily for promoting in some way the common good and general welfare of the people of the community. Therefore, you do not qualify for exemption from Federal income as an organization described in section 501(c)(4) of the Code.

You are not relieved of the requirements for filing Federal income tax returns.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this, you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If someone who is not one of your principal officers will represent you, that person will need to file a power of attorney or tax information authorization with us.

If you do not appeal this determination within 30 days from the date of this letter, as explained in the enclosed Publication 892, this letter will become our final determination in this matter.

Sincerely,

Steven T. Miller

Steven T. Miller
Director, Exempt Organizations

Enclosure(s)
Publication 892

cc: [REDACTED]
[REDACTED]
[REDACTED]