

Internal Revenue Service  
District Director

Department of the Treasury

Person To Contact: [REDACTED]

Telephone: [REDACTED]

Refer Reply To: [REDACTED]

CERTIFIED MAIL

SEP 28 1989

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.

You were incorporated on [REDACTED] under the laws of the State of [REDACTED]. Your bylaws state that your objects are to develop, maintain, implement, and supervise take procedures in order to safeguard the dealer's takes; and to assure an efficient collection, count, and accurate distribution of takes.

Your primary function is to apportion the takes and interest earned on these takes to your members. You have explained that "takes" are tips received by dealers from players at the casino that must be deposited with the casino due to regulations imposed by the [REDACTED]. [REDACTED] submitted by you indicate that such tips are placed in a pool for distribution pro rata among the dealers on a weekly basis, with the distribution being based upon the number of hours that each dealer has worked. Your only purpose is to provide the means of apportioning these tips correctly, and your purpose can best be described as serving the needs of your members to operate within the [REDACTED]. To be a member of your organization, it is necessary to be employed as a dealer by the [REDACTED] and to meet the licensing requirements for dealers established by the [REDACTED].

Section 501(c)(4) of the Code provides for the recognition of exemption of 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.

Section 1.501(c)(4)-1(b) of the Income Tax Regulations provides that the

[REDACTED]

conditions required for a local association of employees to be exempt under Code section 501(c)(4) are that the association's membership be limited to the employees of a designated person or persons in a particular municipality; and that the net earnings of the association be devoted exclusively to charitable, educational, or recreational purposes.

Revenue Ruling 68-354, 1968-2 C.B. page 307, describes an organization that was established to insure the efficient discharge of an obligation imposed by law on its creators to pay Federal and State employment taxes. The organization was created by an association of manufacturers and a labor union to receive employment taxes which the manufacturers were required to deduct from the wages of their union employees and to pay such deductions over to the Federal and State tax authorities. A committee composed of representatives of the manufacturers' association and the labor union administered the organization's operations. The revenue ruling holds that this organization does not qualify for exemption under Code section 501(c)(4) as an organization described in Code section 501(c)(4) or any other subsection of Code section 501(c) because it does not serve any of the exempt purposes described therein.

Although you appear to be a local association of employees, there is no evidence within your submitted information that indicates that your net earnings are devoted exclusively to charitable, educational, or recreational purposes. Furthermore, your purpose and primary function are similar to those of the organization described within Revenue Ruling 68-354. This is so because the facts and circumstances indicate that you were established to insure the efficient discharge of a payroll obligation imposed by a State authority, [REDACTED]. Your only purpose is to provide the means of properly apportioning tips to your members, and your purpose can best be described as serving the needs of your members to operate within [REDACTED]. Your primary function is to apportion tips and interest earned on these tips to your membership. Because your net earnings are not devoted exclusively to charitable, educational, or recreational purposes; and because you do not serve an exempt purpose described within Code section 501(c)(4), you do not qualify as an organization that is exempt from Federal income tax under Code section 501(c)(4).

In accordance with this determination, you are a taxable entity and are required to file Federal income tax returns on Form 1120. If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference

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should include a written appeal giving the facts, law, and any other information to support your position, as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional office or, if you request, at any mutually convenient District office. If we do not hear from you within 30 days from the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]  
District Director

Enclosure: Publication 892