

Fraternal beneficiary society; orphanage for deceased members' dependent children. A fraternal beneficiary society that operates an orphanage for surviving children of deceased members provides "other benefits" within the meaning of section 501(c)(8) of the Code.

ISSUE

Under the circumstances described below, does a fraternal beneficiary society provide "other benefits" within the meaning of section 501(c)(8) of the Internal Revenue Code if it provides an orphanage for the surviving dependent children of deceased members?

FACTS

National fraternal beneficiary society M, which otherwise qualifies for exemption from federal income tax under section 501(c)(8) of the Code, operates an orphanage open to the surviving dependent children of any deceased member. All expenses of the orphanage are paid from a separate fund maintained by M. The separate fund is supported by members' dues. Each of M's subordinate lodges contributes a portion of its dues income to the fund.

LAW AND ANALYSIS

Section 501(c)(8) of the Code provides for the exemption from federal income tax of fraternal beneficiary societies, orders, or associations that operate under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system and that provide for the payment of life, sick, accident, or other benefits to the members of such societies or their dependents.

The term "other benefits," as used in section 501(c)(8) of the Code, is limited by the type of benefit specified in that section. It is applicable only to those benefits that are of a like kind and nature to those enumerated. Providing an orphanage for members' surviving dependent children is providing a benefit of a like kind and nature to life insurance benefits. Although it differs from life insurance benefits because it is a non-cash benefit, M's orphanage serves the same purpose that life insurance serves. Life insurance provides a measure of financial security to the insured's survivors if the insured dies. Similarly, M's orphanage provides its members' children security against becoming wards of the state if their parents die. Both benefits provide M's members a way to protect their families.

Also, M operates the orphanage in a manner similar to a life insurance program. The members' contributions, made through their subordinate lodges, to M's separately maintained orphanage

fund are similar to insurance premium payments to typical life insurance funds.

HOLDING

Under the circumstances described above, a fraternal beneficiary society provides "other benefits" within the meaning of section 501(c)(8) of the Code, if it provides an orphanage for the surviving dependent children of deceased members.