

Rev. Rul. 86-75, 1986-1 C.B. 245

Fraternal beneficiary society; whole life insurance with investment features. Whole life insurance constitutes a life benefit under section 501(c)(8) of the Code even though the policies contain investment features such as cash surrender value and policy loan.

ISSUE

Does whole life insurance constitute a life benefit under section 501(c)(8) of the Internal Revenue Code?

FACTS

A fraternal beneficiary society operating under the lodge system issues life insurance contracts (as defined in section 7702 of the Code) to its members. The contracts provided a lump-sum death benefit which will be paid to the member's dependents on the death of an insured member. At any time, a member of the organization may borrow against the cash surrender value of the contract or withdraw the cash surrender value and terminate the contract.

LAW

Section 501(c)(8) of the Code provides for the exemption from federal income tax of fraternal beneficiary societies, orders, or associations-

(A) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and

(B) providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents.

Section 1.501(c)(8)-1 of the Income Tax Regulations provides that in order to be exempt under section 501(c)(8) of the Code an organization must have an established system for the payment to its members of their dependents of life, sick, accident, or other benefits.

HOLDING

Whole life insurance constitutes a life benefit under section 501(c)(8) of the Code.