



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Release Number: **201031035**  
Release Date: 8/6/10  
Date: 5/13/2010

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

UIL Code: 501.03-00  
501.03-04  
501.03-05  
501.03-08  
501.35-00  
501.04-00

Dear

This is our final determination that the subordinate clubs in your group ruling do not qualify for exemption from Federal income tax as organizations described in Internal Revenue Code section 501(c)(3). Recently, we sent you a letter that proposed an adverse determination on your request that we modify the exempt status of the subordinate clubs in your group ruling from Code section 501(c)(4) to Code section 501(c)(3). The letter explained the facts, law and rationale, and gave you 30 days in which to file a protest. You requested an additional 30 days in which to submit a protest and we approved the extension. Because you did not file a protest within the extended period, the proposed adverse determination is now final.

Because the subordinate clubs in your group ruling do not qualify for exemption as organizations described in Code section 501(c)(3), donors may not deduct contributions to them under Code section 170. Based on our previous group ruling letter, your subordinate clubs remain exempt under Code section 501(c)(4). Your subordinate clubs should continue to file annual information returns on Form 990-N, 990-EZ or 990 depending on their levels of gross receipts and assets. See the instructions to the information returns for the years 2008, 2009 and 2010 for more specific guidance on which information return to file.

Under separate cover, we are sending you a final determination that you also remain exempt under Code section 501(c)(4).

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437.

If you agree with our deletions, you do not need to take any further action. If you have any

questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

If you have any questions about your subordante clubs' annual requirements to file Forms 990-N, 990-EZ or 990 or about other filing requirements, please contact IRS Customer Service at 1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Rob Choi  
Director, Exempt Organizations  
Rulings & Agreements

Enclosures  
Notice 437  
Redacted Proposed Adverse Determination Letter  
Redacted Final Adverse Determination Letter



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

TAX EXEMPT AND  
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DIVISION

Date: 3/1/2010

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

Legend:

UIL Index:

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Dear

We have considered your request for a group ruling for your subordinate clubs pursuant to the provisions of Revenue Procedure 80-27, 1980-1 C.B. 677. Based on the information provided, we have concluded that you do not qualify for a modification of your group ruling changing classification of your subordinates from section 501(c)(4) to section 501(c)(3) of the Internal Revenue Code (IRC). The basis for our conclusion is set forth below. A determination on your request for individual exemption will be issued under separate cover.

Issue:

Is it in the interest of sound tax administration to approve your request for a modification of your group ruling to section 501(c)(3)? No, for the reasons explained below.

Alternative Issue:

If in the future changes are made to your operations and it is determined you qualify for a group ruling under section 501(c)(3); should the changes and corrections result in a ruling prior to the effective date of the changes and/or corrections? No, for the reasons explained below.

### Facts

You, X, are a national organization with approximately x member clubs and more than y members. You were originally formed as an unincorporated association and were later incorporated under the laws of the state of D. You were granted exemption under section 101(9) of the Revenue Act of 1934. The ruling was affirmed four separate times. Later, in a group ruling, and a supplemental group ruling, the IRS found that you and your subordinate clubs qualified under IRC 501(c)(7) as tax-exempt social clubs. Subsequently, you and your subordinate clubs were granted exemption from federal income tax under section 501(c)(4) of the 1954 Code as "organizations not organized for profit but operated exclusively for the promotion of social welfare," rather than as social clubs as described in section 501(c)(7). Your group ruling exemption under IRC 501(c)(4) remains in effect.

You filed a Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code. With your Form 1023, you also requested to be reclassified under section 501(c)(3) for a group exemption on behalf of the E which is

a member club that has agreed to be bound by your Constitution and Bylaws.

Because we determined that your group ruling request extended beyond just one subordinate, you were asked to select ten member clubs to act as a representative sample and the representative sample should consist of clubs from different states and varying sizes. You were also asked to submit each member clubs' organizational documents and income statements for the last three years.

You provided financial documents as well as organizing documents for six subordinate clubs.

We identified additional clubs to sample and in total, information was received on the following 13 representative subordinate clubs:

- G
- H
- I
- J
- K
- L
- M
- N
- O
- P
- Q
- R
- S

A summary of the information submitted, including websites, narrative information, and meeting minutes is set forth below. Furthermore, each of the member clubs submitted Articles of Amendment stating the purposes for which they are organized as follows:

The Corporation is organized exclusively for charitable and educational purposes set forth in Section 501(c)(3) of the Internal Revenue Code of 1986, as now in effect on or as may be amended (the "Code"). Without limiting the generality of the foregoing, the purposes for which the Corporation is organized and will be operated include, but are not limited to, promoting an active interest in good government and civic affairs, inspiring respect for law, promoting patriotism and working for international accord and friendship among all people, and aiding and encouraging the development of youth. Nothing herein shall be construed to give the Corporation any purpose that is not permitted under Section 501(c)(3) of the Code and the D Nonprofit Corporation Act (the "Act").

G: G holds executive meetings once a month at a local bakery and weekly meetings at a local community center. Meetings are open to members and guests. G conducted several fundraising events, such as a chili dinner, magic show, golf outing, fish derby, and packer raffles. G represented that the purpose of the fundraisers is to raise funds for scholarship programs. Some of its other activities include an Independence Day parade, tri-star baseball for children, W Junior Miss with scholarship award, essay contest, and leaf raking for seniors.

The club provided a copy of its newsletter that states: “are you interested in...developing new social and working relationships with individuals from a cross section in our community? Demonstrating and developing your leadership skills? Having fun with people who share your interest in our youth?” Social activities included a Christmas party, installation dinner, picnic, and other social events. In its meeting minutes, the organization stated that 75 members and guests attended the picnic.

G also submitted a copy of a brochure in which it states: “B club members receive as much as they give” including “the fellowship of people who get things done—and the example they set for embracing a similar V mindset. New social and working relationships with individuals from a cross section of our community. The opportunity to develop and demonstrate leadership skills locally, regionally, nationally, and internationally. And the satisfaction of making a difference in lives of children as well as our community.”

H: H holds once a month board meetings and twice monthly dinner meetings. A newsletter provided by H states club meetings are held on the 2<sup>nd</sup> & 4<sup>th</sup> Thursday of each month. “...Social @6pm Dinner @7pm. Board Meetings are First Tuesday of month @7pm.” The calendar submitted for September of 2007, for example, listed a total of six meetings. One meeting was a board meeting; two meetings were dinner meetings/social; one meeting was the installation banquet; and the last meeting was described as a “race party at the club house 6pm. Covered dish.”

In addition to the dinners and parties, H holds social events such as a super bowl party, Valentine's Day dinner, and seafood appreciation dinner. The board meeting minutes stated, “there will be a super bowl party at the club building starting at 4. This will be a family affair. Bring your own bottle and snacks of all sorts.” Furthermore, in other meeting minutes, H thanked individuals for preparing the great seafood member appreciation dinner. Seventy six people were in attendance and remarked that the super bowl party held at the club building was a great success and there was a lot of family fellowship.

H also organized a day trip to an island in the area. The club's newsletter described the trip as follows:

On Saturday August at AM hardy souls led by chairman...departed...for a day trip to [a local island]. Blessed by beautiful weather the trip turned out to be both fun and very interesting. Our bus arrived...and we then boarded...for a ride to the Island. After a pleasant ride supported by a few adult beverages and a lot of camaraderie, the group arrived at [the island] at 11:30. Here a guide met us and led us to [a restaurant] for a fantastic all you could eat lunch.... After lunch there was time for touring the island, visiting gift shops etc before boarding the ferry for the return to...and reloading of the bus. . . .All in all it was a great and enjoyable trip. Our thanks to...for his efforts in organizing this day for our members to get together and enjoy each others company.

H conducted several fundraising activities, such as a BBQ fundraiser, Christmas tree sales, a stew fundraiser, shrimp feast, and golf tournament. Per the Minutes of the Board of Directors meetings, the club considers that the fundraisers' purpose was to raise funds for its charitable and educational causes, such as paying for youth tournaments; youth appreciation week, youth sports tournaments, oratorical contest, and achievement in educational program.

I: According to I's newsletter, I holds monthly meetings on the 1<sup>st</sup> and 3<sup>rd</sup> Thursday of each month at a local restaurant. Its financial records show that, for each month beginning Jan. 07-Sept. 07, the club spent anywhere from \$80.00-\$176.00 per meeting on meals for members. Its other expenditures included dues and other payments to X as well as expenditures for medallions, t-shirts, and other prizes for its youth activities. Moreover, the club held a marching band festival, spring band concerts, essay contest, Santa calling, and special olympics. I raises funds through several fundraising activities including raffles.

J: J's activities include: red ribbon week, essay and oratorical contests, Santa visits, Easter party at a cottage, student of the month, and junior world golf tournament. The organization also holds monthly dinner meetings with a guest speaker. Members paid for their own meals, and speakers from the community discussed a range of topics. According to the agenda, there was an introduction and explanation to members about a ten step program for personal growth. The agenda maintains that, after completing the program, individuals are better B and have gained skills to assist others in their communities.

K: K holds monthly board meetings, but did not conduct lunch or dinner meetings for members. The club participated in two primary fundraising events: a golf outing at a country club and a comedy night at a high school. Some of the other club activities

include: youth connection holiday gift donation, bell ringing for Salvation Army, oratorical contest, youth appreciation, fishing derby, safety booklets, bike decoration and bike safety, and "tridge" trot (youth fitness).

In one of K's brochures, K states "the programs and guest speakers offer the members an opportunity to learn, grow, and improve themselves." The club listed several social and/or recreational activities on its website including K golf outing and a baseball game outing. You explained the K golf outing "...served as a fundraiser for the club, as well as a member solicitation event. The event was open to the public and approximately 60 hours of volunteer time was spent in the activity." In that same letter, you described the baseball game outing as a ". . . social event among members of the club, but also served as an event to encourage new members to join. K's name was posted on the scoreboard at the stadium for advertisement for new members. Volunteer hours were less than 10."

L: L met on a weekly basis and the weekly meeting was open to members and guests. The club holds monthly board meetings. The Articles of Amendment contain 501(c)(3) language; however, one of the other purposes listed in its Articles of Incorporation is:

To encourage the use of the Golden Rule in all human relationships; to strengthen the individual through the pursuit of high ideals and to tighten the bonds of fellowship among all men; to exchange ideas, methods, information and business counties between members; to engage in any and all activities such as are carried on by clubs known and designated as "service clubs;" to cooperate with other organizations in the carrying out of any objective or purpose of this corporation.

The organization conducted several very large fundraisers, such as the V fun day, a car show, and air races and RV park where it raised \$30,000. In describing the air races and RV park fundraiser, the club said that "over the years the R.V park has assumed a greater significance than a mere fundraiser effort. Each year our members look forward to your stay with us. Your visits are very enjoyable events. For us, it is a time of renewing old acquaintances and making new friends."

The club sponsors two Boy Scout troops, conducts essay and oratorical contests, partner in education program, a Christmas party, respect for law, challenger little league, and a scholarship program.

M: M conducts the following activities: dress a child, hotline to Santa, family safety day, oratorical contest, respect for law banquet, Boy Scout troop sponsorship, high school rodeo sponsorship, and a festival of lights. M also held weekly Friday lunch meetings. The meetings lasted an hour and included a presentation by a speaker, a raffle, and a meal in which each member paid \$10.00. The profit and loss statements for 20 -20

showed that two major fundraisers were conducted...dress a child and X day.

M's brochure states that, while it does support local charities and other organizations that are centered on children, it is also "not just about community service though. We also like to have fun. Our meetings Friday at lunch can become raucous and irreverent. We enjoy our installation banquet each fall; our Christmas parties; and our times when we just get together to be with friends."

N: N holds weekly lunch time meetings with various speakers. The club described its meetings as a gathering of friends, informative guest speakers, and social activities such as seasonal activities, golf tournament fundraiser, and bowl-a-thon fundraiser. The club held two primary fundraising activities: "friends of youth" golf tournament and bowl-a-thon. N described its bowl-a-thon as follows: "it's a party....and it's a fundraiser. Just as in our previous bowl-a-thons, we will have some really great prizes to registered members who are most successful in raising money for the club's community service work."

In an edition of N's newsletter under the heading, "T," the organization lists upcoming social events for its members:

- Let's see the [city's basketball team]: I have a call into the [city's basketball team] for a group rate for these 2 games—let's discuss which one you would like to attend and we will pick one for B Night... ..
- A night at the theatre: This is the...premiere of the best selling book by.... I have reserved 20 tickets for the group price of \$        each, but I must confirm them by Feb. 20th. If we get a group together, we can plan to meet for dinner before the show. This is a delightful theater, very intimate! They also have a fabulous... museum to visit during intermission.

Another issue of the newsletter describes a symphony night as season finale week and B night at the symphony...Special rate of \$     ...Music Director...brings the [symphony] season to an inspiring conclusion with odes and celebrations with post-concert discussion. The club has service committees for the following activities that it conducts: essay contest, slam dunk for life, scholarship luncheon, vocational scholarship, a memorial and other scholarships, oratorical contest, childhood cancer, campus bike award, gold youth leadership seminar, citywide bike rodeo, and annual installation banquet.

N also provided a description of its internal operations committees, as follows:

- Weekly Programs and Speakers: Arrange for appropriate speakers on varied and timely topics.
- Fellowship—Sign In Table/Weekly Meeting Greeters

- New Member Recruiting/Orientation/Integration: Organize a program that will enroll new members all year round. Encourage individual responsibility in getting new members. See that new members have adequate introduction to C. Make sure they are being absorbed into the club.
- Cheer-Check on ill or shut-in members; bring greeting cards for members to sign when appropriate.
- Membership Directory
- Parties/Socials: Plans any social events the club desires, such as Christmas holiday party, attendance at sports events, family picnic, etc. All social events must be self-supporting.

O: According to its Form 990-EZ, O's primary purpose is to support youth and community service activities. The activities conducted by the club include a program for special abilities seniors, road clean-up, providing cultural and recreational opportunities for residents at a group home who come from dysfunctional family backgrounds, an annual event where members assist in giving handicapped children an opportunity to fly in a small airplane, kids news day, Christmas dinners for needy military families, student appreciation, scholastic awards, oratorical contest, essay contest, tutoring, and melodrama. O conducted several large events described as fundraisers, including craft shows, football fun, and golf and basketball tournaments.

The club provided social activities for its members including pancake breakfasts, past presidents new years breakfast, chili cook-off, movie night, kettle corn, St. Patrick's dinners, St. Valentine's party, and an installation brunch. O's St. Patrick's and Valentine's Day dinners/parties are described by the club as "primarily a fun social gathering of members, spouses, and invited guests." The club regularly holds a movie night for its members. The club uses the community room, serves hot dogs, chili, popcorn, and soft drinks and invites anyone interested, at no charge. The calendar of events listed 11 movie nights. The morning meeting minutes states that one of the members has extra tickets for a museum tour.

The club also holds breakfast meetings once a week for members and guests and monthly Board of Director meetings. Per Minutes of Board of Directors Meetings, the club holds other meetings contained a reminder regarding an upcoming meeting: "Don't forget! Next Thursday's meeting will be an evening BYO BBQ @ 6pm. So bring your own entrée to BBQ—corn on the cob, 3 salads, 3 deserts and beverages will be provided—all for only \$6."

The club has internal VP committees including committees for casino night, Christmas pot-luck dinner, clubhouse building, craft fairs, fellowship, membership, movie night, pasta night, personal growth program, St. Patrick's Day dinner, and

Valentine's Day dinner.

P: P's website states that one meeting per month is a social event, and that "this event is different each month. We try to find a different place to visit as a group. From time to time, we may invite a guest speaker to talk about youth, a youth program or some interesting topic about our community. This allows for fun and fellowship and we will most likely have something good to eat here." You explained "the meeting was designed to encourage recruitment of new members [and] . . . that "any organization whose purposes involve reaching out to youth, must encourage social interaction among its members, so those members will be able to successfully reach out to a younger generation."

Q: Q stated on its website "whether you're searching for an outlet to help your community, personal development, or regarding camaraderie and fellowship, you will find what you're looking for at Q." The website further stated "although the members of Q come from all walks of life, we have one thing in common—we know we can make a difference. We also know that as B we receive as much as we give through (1) the fellowship, camaraderie and good humor we experience at our Friday morning meetings; and (2) new social and business relationships with people from a cross section of our community." One meeting per month was described as "Camaraderie Day" and the website provided a list of fun times including:

- Wives/children/grandchildren to breakfast: Each year we try to have a special program for our wives/children/grandchildren at breakfast during Christmas vacation. Entertainment provided at meeting.
- Honeymoon Weekend: Each year in June, many members and their wives/significant others gather in a fun...vacation spot for a weekend of "honeymooning", shared fun at mealtimes and activities, and a wide range of activities, or just relaxing, make this a standout time and most enjoyable weekend...
- Holiday Party: Q puts on a holiday party after the Christmas tree lot closes. This event is usually at..., and is a fun way to meet new members and spouses and have a great time with music, dancing and good food and libations.
- Summer Picnic: In late summer Q puts on a summer picnic for members and their families. Usually try to coordinate this with a concert in the park sponsored by the City of... The club provides a barbeque and drinks. Golf event: Each May, the duffers get together and play a 9 hole par 3 course using only a putter and one other club. We invite wives, friends and have prizes and a picnic afterwards. We also have numerous other golf outings during the summer, including couples golf.
- Bridge Group: A monthly group plays couples bridge, hosted in rotation at the participant's house. Join this fun activity as a great way to meet and compete with other members of the club.

- **Western Dance:** Each year a square dance is organized to keep us swinging and fit. Join this great activity as a fun way to socialize with members and have a rousing good time. Also, it is a great way to bring guests to introduce them to club members and encourage them to join.

Q's newsletter described a day at the ballpark as follows. "...the club will have a fundraiser, handing out free jerseys at the...game against a [rival team]. There are only 5000 jerseys available, so we won't have to work long and can then attend the game for free. The newsletter further described the Honeymoon Weekend as "a premium private accommodation . . .;" and another edition described the events that took place at the Honeymoon Weekend that was attended by couples. Such activities included fishing, shopping, golf, hiking, pontoon boat rides, a two hour cruise, cocktail party, Saturday dinner and Sunday brunch.

When asked to explain the purpose of the honeymoon weekend, you stated that "this was not a formal activity of the club. This social function, to the extent members elect to participate, strengthened the bond of members to the organization." You explained that the golf and bridge groups were likewise not a formal club activity. You stated the golf event was merely a group of members getting together to encourage member interaction and to assist recruitment of new members. You explained the holiday party, summer picnic and western dance were designed to encourage member recruitment and member interaction.

R: R's website states, in addition to its community service activities, "we also enjoy social events throughout the year, which include our annual installations banquet, club Christmas party, Las Vegas night and super bowl party. As B, we share the bond of fellowship, enthusiasm and faith in the future!" Vegas Night is described as a night of gambling, camaraderie and a few liquid refreshments. The Club Christmas party is a "Christmas social for club members and their families..." and the super bowl social is a "social activity held at a local establishment for adult club members and adult guests for dinner and beverages and the football game." You explained that the purpose of Vegas Night was primarily designed as a member recruiting device, in addition to serving as a fundraiser for the club.

S: S stated on its website that "besides helping kids, we also take time to have some FUN for ourselves, including picnics, project pizza parties, and a Christmas/dinner party." The website further stated "our guest speaker program enables us to learn about...community youth programs; local services, important events, unusual occupations and professions, and interesting public issues...while enjoying good fellowship and good food." The club's website described field trips that the club regularly takes: "They say that variety is the spice of life. Well, we provide that spice by periodically going on field trips in place of a regular Club meeting. In the past, we have gone on a tour of the downtown fire station, visited a local museum, toured the remodeled YMCA, had an outside meeting at the...gardens, and toured a remodeled

[hotel].”

In addition to the information you provided about the representative sample of subordinate clubs, you also provided documentation about the structure of your member clubs and their general operations relating to social activities. You explained the social and recreational activities conducted by your subordinates by stating “as nearly all X member clubs rely exclusively on volunteers to provide services to achieve their charitable and educational goals, if the club cannot offer its volunteers some degree of camaraderie and/or fun in return for these needed services, the club will have great difficulty in obtaining necessary volunteer support.” You stated “any tax exempt organization must establish a sense of community or bonding among its existing members and continually recruit new members, or the organization is destined for failure.”

You further stated you provide member benefits, such as fellowship and training to include personal development, financial management, and leadership development. You provided “fellowship, by the very nature of our club structure you have others within your community to associate with like-minded people.” Your website contained downloadable publications your member clubs can use in club administration, including a diagram of a model club, which is structured to contain committees for new club building, club director of personal growth, and fellowship and social functions. In another document on your website, you described the functions of the fellowship committee. This committee “stimulates fellowship at club meetings, sends cards or flowers to members and their families on significant occasions, strives to extend fellowship beyond club and community and plans a well-rounded program of social functions; a special committee conducts each social activity.”

Furthermore, in an article posted on your website to your member clubs concerning a reorganization plan, you reassure the clubs that they “will continue to provide programs and activities to the youth of their communities, provide leadership opportunities to members and enhance social networking.” In your monthly newsletter that is mailed to all B clubs and other B volunteers, you included advertisements encouraging travel tours with other B members as well as a fundraising cruise for kids.

### Law

IRC 501(c)(3) exempts from federal income tax corporations organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of its net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or

intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

IRC 501(c)(4) provides that civic organizations not organized for profit but operated exclusively for the promotion of social welfare is exempt from federal income tax.

Section 1.501(c)(3)-1(c)(1) of the Income Tax Regulations provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(4)-1 of the Income Tax Regulations states 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.

Section 1.501(c)(4)-1(a)(2)(ii) of the Income Tax Regulations provides that an organization will not qualify for exemption as a civic organization described in section 501(c)(4) of the Code if its primary activity is the operation of a social club.

Revenue Procedure 80-27, 1980-1 CB 677 sets forth procedures under which recognition of exemption from federal income tax under section 501(c) of the Internal Revenue Code may be obtained on a group basis for subordinate organizations affiliated with and under the general supervision or control of a central organization. This procedure relieves each of the subordinate organizations covered by a group exemption letter from filing its own application for recognition of exemption. The central organization applying for a group exemption letter must obtain recognition of its own exempt status.

Revenue Procedure 2010-4, 2010-1 C.B. 121, Section 8.01, provides that the Service ordinarily will not issue a letter ruling or determination letter in certain areas because of the factual nature of the problem involved or because of other reasons. The Service may decline to issue a letter ruling or a determination letter when appropriate in the interest of sound tax administration or on other grounds whenever warranted by the facts or circumstances of a particular case.

Revenue Ruling 65-195, 1965-2 C.B. 164 held that a junior chamber of commerce operated exclusively for the purpose of rendering civic services for the promotion of the welfare of the community and its citizens is exempt under section 501(c)(4) of the Code. The facts showed that the organization was primarily engaged in bringing about civic betterments and social improvements by its activities on behalf of youth, community benefit programs, and community leadership training. These youth activities consisted, in part, of free instruction in sports and the organization of contests, and conducted

other projects for the youth of the community. In addition to its youth programs, the organization conducted numerous other programs for the benefit of the community at large, including improvement of health and safety, conservation, city beautification, promotion of patriotism, and entertainment at hospitals and veterans homes. The organization also conducted training designed to teach techniques of effective public speaking, and in the rules of parliamentary procedure.

Revenue Ruling 66-179, 1966-1 C.B. 139 describes situations under which garden clubs may qualify for exemption under section 501 of the Code. Situation 1 describes an organization that is incorporated as a nonprofit organization to instruct the public on horticultural subjects and stimulating interest in the beautification of the geographic area. In furtherance of these purposes, the organization (1) maintains and operates a free library of materials on horticulture and allied subjects; (2) instructs the public on correct gardening procedures and conservation of trees and plants by means of radio, television, and lecture programs; (3) holds public flower shows of a noncommercial nature at which new varieties of plants and flowers are exhibited; (4) makes awards to children for achievements in gardening; (5) encourages roadside beautification and civic planting; and (6) makes awards for civic achievement in conservation and horticulture. Situation 2 described an organization with the same facts as described in Situation 1 except that a substantial part of the organization's activities, but not its primary activity, consists of social functions for the benefit, pleasure, and recreation of its members. The organization in Situation 1 is organized and operated exclusively for charitable and educational purposes and qualifies for exemption under section 501(c)(3) of the Code. The facts in Situation 2 are distinguishable from those in Situation 1 in that the organization in Situation 2 conducts substantial social functions not in furtherance of any of the purposes specified in section 501(c)(3). Accordingly, the organization does not qualify for exemption under section 501(c)(3). However, because the organization is operated primarily to bring about civic betterment and social improvements and the social functions for the benefit, pleasure and recreation of the members do not constitute its primary activity, the organization qualifies for exemption under section 501(c)(4).

Revenue Ruling 68-72, 1968-1 C.B. 250 described an organization formed by a group of churches to operate a coffee house for the purposes of holding discussions on religion, current events, and social problems, and to provide young adults personal counseling on social and vocational problems. Refreshments and entertainment were made available, and a nominal admission fee was charged. The revenue ruling concluded that the social aspects of the organization's activities were merely incidental to and in furtherance of its purposes. Accordingly, the organization is exempt from federal income tax under section 501(c)(3) of the Code.

Revenue Ruling 68-118, 1968-1 C.B. 261 provides a nonprofit organization that stimulates the interest of youth in the community in organization sports qualifies for exemption under section 501(c)(4) of the Code. The primary activity of the organization

was to furnish free admission to professional sporting events to boys and girls in the community 16 years of age or younger. The organization also awarded prizes such as trips to sporting events for various essay contests. The Service ruled that the organization was providing wholesome entertainment for the social improvement and welfare of the youths of the community that promotes the common good and general welfare of the people of the community.

Revenue Ruling 69-384, 1969-2 C.B. 122 provides that a nonprofit organization created for the primary purpose of maintaining an amateur baseball association and conducting amateur baseball games among its members' teams is exempt under section 501(c)(4) of the Code. The Service ruled that, by helping to develop good sportsmanship, high character, and the physical well-being of young adults through the operation of an amateur baseball league, the organization was promoting the common good and general welfare of the people of the community.

Revenue Ruling 69-573, 1969-2 C.B. 125 provides that a fraternity that maintains a chapter house for active members who are students of the school is not exempt under section 501(c)(3) of the Code but is exempt under section 501(c)(7). Although the typical college fraternity does in some degree contribute to the cultural and educational growth of its members during their student years, it was not its primary purpose. The fraternity was determined to be primarily a social club in that its major functions were to provide a meeting place for its members, living quarters for many of them, the place where their meals were served, and the headquarters for their entertainment.

Revenue Ruling 70-4, 1970 1-C.B. 126 provides exemption under section 501(c)(4) of the Code to an organization engaged in promoting and regulating a sport for amateurs. The organization's primary activities are directed toward reviving and promoting a sport by circulating printed material about the sport, by conducting exhibitions to introduce the sport to the public, by conducting tournaments, and by giving occasional instructive clinics. The organization also sets the standards for the equipment to be used, establishes the official rules of the games, and prescribes the official size of the playing area. By promoting and regulating a sport for amateurs, the Service ruled that the organization is providing wholesome activity and entertainment for the social improvement and welfare of the community that promotes the common good and general welfare of the people of the community.

Revenue Ruling 73-439, 1973-2 C.B. 176 held as non-exempt under section 501(c)(3) a discussion group that held closed meetings at which personally oriented speeches were given followed by the serving of food and other refreshments. Each meeting was conducted as to encourage personal contact and fellowship among members. The topic discussed by the faculty guest speakers did not necessarily reflect their particular areas of academic expertise. It was concluded that there was no evidence that the topics discussed fell within any particular field of inquiry nor did the discussions communicate any organized body of knowledge or information that would develop or improve the

individual capabilities of the participants to a significant extent or result in any public benefit. The meetings were more akin to the socializing that takes place at meetings of fraternal and professional clubs.

Revenue Ruling 75-386, 1975-2 C.B. 211 provides that a nonprofit organization formed to promote the common good and general welfare of the residents of a community and which carries on activities in the general areas of public safety and crime prevention, housing and community development, recreation, and community services, qualifies for exemption under section 501(c)(4) of the Code. With regard to its recreational activities, the organization held various holiday programs for local residents and sponsored a community basketball league.

Revenue Ruling 77-366, 1977-2, C.B. 192 provides that a nonprofit organization that arranges and conducts winter-time ocean cruises during which activities to further religious and educational purposes are provided in addition to extensive social and recreational activities is not operated exclusively for exempt purposes and does not qualify for exemption under section 501(c)(3). The organization accomplished both charitable and non-charitable purposes through its cruises.

Rev. Rul. 77-430, 1977-2 CB 194 provides exemption under section 501(c)(3) of the Code to an organization that was formed to conduct weekend religious retreats that were open to the public. The retreats were conducted at a rural lakeshore site that offered recreational opportunities for attendees. The Service ruled that the use of facilities for recreational purposes was incidental to the organization's religious purpose.

Better Business Bureau v. United States, 326 U.S. 278 (1945), the Court held that if an organization is not operated exclusively for charitable purposes, it will not qualify for exemption under section 501(c)(3) if it has a single non-charitable purpose that is substantial in nature. This is true regardless of the number or importance of the organization's charitable purposes.

In Phinney v. Dougherty, 307 F.2d 357 (5th Cir. 1962), the Court of Appeals held that a gift to a fund to acquire and maintain a chapter house for a fraternity did not qualify for exemption as a charitable and educational organization within the meaning of section 501(c)(3) of the Code. The court reasoned that, while this activity furthered educational purposes, it also furthered social purposes; and thus, the organization did not operate exclusively for section 501(c)(3) purposes, and did not qualify for exemption under section 501(c)(3).

In First Libertarian Church v. Commissioner of Internal Revenue, 74 T.C. 396 (1980), the Court stated that the church failed to show that it successfully segregated the clearly social and political aspects of its supper club meetings and its publication from its purpose to further the doctrine of ethical egoism. As the church operated for social and political purposes to more than an insubstantial degree, it fails to qualify for exemption

under section 501(c)(3) of the Code. The court stated that an organization will not qualify for exemption if a non-exempt activity is more than an insubstantial part of its overall activities or if an activity has more than an insubstantial non-exempt purpose. The court explained that “clearly the regulations and cases contemplate that a single activity may be carried on for more than one purpose. If a substantial secondary purpose is not an exempt one, qualification under section 501(c)(3) will be denied.”

### Analysis

Based on the information you submitted, and for the reasons explained below, it is not in the interest of sound tax administration to approve your request for a group ruling under section 501(c)(3) because we have concluded that more than an insubstantial part of your subordinates’ activities are not in furtherance of an exempt purpose under section 1.501(c)(3)-1(c)(1) of the Regulations.

Your subordinate clubs are currently classified as organizations exempt under a group ruling under IRC 501(c)(4). Organizations exempt under section 501(c)(4) are generally allowed greater latitude than that allowed to organizations exempt under section 501(c)(3). Under section 501(c)(3), an organization must show that it is organized and operated exclusively for tax-exempt purposes. However, under section 1.501(c)(4)-1(a)(2)(i) of the Regulations, a section 501(c)(4) organization must demonstrate that its activities primarily benefit the community as a whole. Thus, a section 501(c)(4) organization may have more than an incidental amount of social, or other non-exempt activities, and still qualify for exemption, as long as those activities are not primary. However, those same activities, if more than insubstantial, will disqualify the organization from tax exemption under section 501(c)(3).

### Operational Test

Although your subordinates do conduct charitable and educational activities, you have failed to show these subordinates are operated exclusively for one or more tax-exempt purposes as required by IRC 501(c)(3). Although your subordinates have revised their governing documents to include 501(c)(3) language, you have not shown that they have actually changed operations such that they would qualify as an organization described within the meaning of IRC 501(c)(3).

### More than Insubstantial Non-Exempt Purpose

Although an organization may carry on activities that further one or more tax-exempt purposes, it will not be treated as operated exclusively for an exempt purpose if it has a single non-charitable purpose that is substantial in nature. See Better Business Bureau v United States, *supra*. Furthermore, a more than insubstantial social purpose will defeat exemption under section 501(c)(3) of the Code. See First Libertarian Church v. Commissioner of Internal Revenue, *supra* (church that operated for social and political

purposes to more than an insubstantial degree failed to qualify for exemption under 501(c)(3)); See Rev. Rul. 73-439, supra (non-exempt discussion group held meetings that were more akin to socializing that takes place at meetings of fraternal and professional clubs); See Rev. Rul. 77-366, supra (winter cruise with religious and educational purposes, as well as social and recreational activities, not exempt under (c)(3)); and See Rev. Rul. 66-179, supra (garden club that conducts substantial social functions not exempt under 501(c)(3)).

Your internal structure evidences an intent to make social networking and club building more than an insubstantial feature of your operations, and as a result, more than an insubstantial feature of your subordinate clubs' operations as well. For example, your website provides a diagram for a model club, which would be structured to contain committees for new club building, club director of personal growth, fellowship and social functions. You state that one of the purposes of the fellowship committee is to "plan a well rounded program of social functions." Many of your subordinates have established these internal operating committees that are social in nature, such as N's fellowship, new member recruiting and orientation integration, and parties and socials committees. O, for example, has committees for casino night, Christmas pot-luck dinner, clubhouse building, craft fairs, fellowship, membership, movie night, pasta night, personal growth program, St. Patrick's Day dinner, and Valentine's Day dinner. Your subordinate clubs are unlike the organization described in Rev. Rul. 68-72, supra, because a substantial part of their club structure is devoted to planning and carrying out activities that do not further an exempt purpose.

Your marketing and public affairs information on behalf of your member clubs also shows that you are engaged in more than insubstantial social and networking activities in contravention of IRC 501(c)(3). For example, in an article to your member clubs concerning a reorganization plan, you reassure the clubs that they "will continue to provide programs and activities to the youth of their communities, provide leadership opportunities to members and enhance social networking." In fact, in your monthly newsletter that is mailed to all B clubs and other B volunteers, you included advertisements encouraging travel tours with other B members as well as a fundraising cruise for kids. Unlike the organizations described in Rev. Rul. 77-430, supra and Rev. Rul. 68-72, supra, you failed to show that your social and recreational purposes are merely incidental to your exempt charitable purpose. Through your marketing and outreach efforts, you signal that social and networking activities are key to your subordinate clubs' operations.

In addition to your internal structure and marketing and public affairs information, an analysis of a representative sample of your subordinate clubs shows that your subordinates are not operated exclusively for tax-exempt purposes under IRC 501(c)(3) due to the nature of their social activities. Your subordinates' social activities are conducted at meetings, parties, trips and recreational events, as well as fundraisers. They conduct weekly meetings at which members eat a meal and listen to various

speakers in the community. Although these meetings may be characterized to serve your charitable purposes, they are primarily social events for your members, carried out to further your non-exempt social purposes. See Rev. Rul. 73-439, supra, in which a discussion group was held to be non-exempt where its meetings were more akin to the socializing that takes place at meetings of fraternal and professional clubs.

H described these weekly meetings as social dinners. N described their weekly meetings as a gathering of friends, informative guest speakers and social activities. M holds weekly Friday lunch meetings and stated in its brochure that “we’re not just about community service though. We also like to have fun. Our meetings Friday at lunch can become raucous and irreverent.” P stated that one meeting per month is a social event, stating that the meeting “...allows for fun and fellowship....” Q provided that one meeting per month was to be a “Camaraderie Day” and stated on its website that “we also know that as B we receive as much as we give through (1) the fellowship, camaraderie and good humor we experience at our Friday morning meetings and (2) new social and business relationships with people from a cross section of our community.”

In addition to the weekly meetings, your subordinates conducted parties for their members, which are not in furtherance of an exempt charitable purpose. See Section 1.501(c)(3)-1(c)(1) of the regulations, supra. These parties included Super Bowl parties, Valentine’s and St. Patrick’s’ day parties, Christmas parties, and other similar holiday events and dinners and social events, including movie nights for members. In one club, for example, the calendar for the month of September 2007 showed six meetings, four of which were social events including dinner meeting socials, an installation banquet and a race party at the club house. H described its super bowl party as “a great success and there was a lot of family fellowship.” R stated that, in addition to its community service activities it enjoyed social events through the year including, among others, Las Vegas Night and a Super Bowl party. Vegas Night was described “as a night of gambling, camaraderie and a few liquid refreshments.” O described its St. Valentine and St. Patrick’s Day parties as “primarily a fun social gathering of members, spouses and invited guests.” And G discussed in its newsletter developing new social and working relationships as well as having fun with others.

S partakes in both parties and trips. It states that “besides helping kids, we also take time to have some FUN ourselves, including picnics, after project pizza parties, and a Christmas dinner/party.” The club describes field trips that the club regularly takes in place of regular meetings, including trips to local museums and the YMCA, etc... Furthermore, some clubs, such as N, offered what it called “V Opportunities” such as a night at the symphony, a night at the theater and tickets to basketball games. O holds regular movie nights for its members serving hot dogs, chili and popcorn.

Many of the recreational events that the subordinate clubs sponsor for their members include card games, golf outings, day trips, and weekend retreats. Your newsletter

advertises a travel tour for B. H organized a day trip to a local island that included a boat ride, lunch, tour of the island, and shopping. K sponsored a golf outing and a baseball game outing. Q sponsored a "Honeymoon Weekend" where 25 couples engaged in such activities as fishing, shopping, golf, hiking, pontoon boat rides, a two hour cruise, cocktail party, Saturday dinner and Sunday brunch at a "private accommodation." This club also sponsored golfing and card games. See Rev. Rul. 69-573, supra, in which a fraternity was determined to be a social club in that its major functions were, among other things, to serve as the headquarters for their entertainment.

Although an activity may serve more than one purpose, such as fundraising, the fundraisers conducted by your subordinates are also events designed to foster member interaction and serve more than an incidental non-exempt social networking purpose. These events classified as fundraisers include raffles, sporting tournaments, BBQ's, comedy nights, and golf outings, etc... N, for example, held two primary fundraising events: friends of youth golf tournament and a bowl-a-thon. The bowl-a-thon was described as both a party and a fundraiser. L conducted the Sun Valley fun day and an R.V. park fundraiser. The R.V. park, according to L "has assumed a greater significance than a mere fundraiser effort. . . . For us, it is a time of renewing old acquaintances and making new friends." H conducted a BBQ fundraiser, a stew fundraiser, shrimp feast and golf tournament. O conducted craft shows, football fun, and golf and basketball tournaments.

You are similar to the organization described in Phinney v. Dougherty, supra, in which the court found that, although a tax-exempt purpose existed, the organization also furthered social purposes, and therefore, did not qualify for exemption under IRC 501(c)(3). See First Libertarian Church v. Commissioner, supra, in which the court explained that "clearly the regulations and cases contemplate that a single activity may be carried on for more than one purpose. If a substantial secondary purpose is not an exempt one, qualification under section 501(c)(3) is denied."

When asked to explain the social activities of your subordinates, you described some of these outings and other activities as member recruitment events and argued that "any tax exempt organization must establish a sense of community or bonding among its existing members and continually recruit new members, or the organization is destined for failure." While it is true that there will be some degree of member interaction and recruitment activities within an organization, those non-exempt activities must remain incidental to the organization's overall charitable purposes. For your subordinates, the enhancement of social networking and other member recruitment and retention activities are not merely incidental to accomplishing their exempt charitable purposes. As the court held in Better Business Bureau v. United States, supra, the presence of a single non-exempt purpose that is substantial in nature will destroy any exemption under IRC 501(c)(3).

### Social Welfare Purpose

IRC 501(c)(4) provides that a civic organization not organized for profit but operated exclusively for the promotion of social welfare is exempt from federal income tax. In Rev. Rul. 65-195, supra, the organization was primarily engaged in bringing about civic betterments and social improvements by its activities on behalf of youth, community benefit programs, and community leadership training. However, under section 1.501(c)(4)-1(a)(2)(ii) of the regulations, the organization will not qualify for exemption as a civic organization described in section 501(c)(4) if its primary activity is the operation of a social club.

Your subordinates' primary purposes are to promote an active interest in good government and civic affairs, inspire respect for law, promote patriotism and work for international accord and friendship among all people, and aid and encourage the development of youth. Your subordinates are similar to the organization described in Rev. Rul. 65-195, supra, in which the Service ruled that the organization's youth activities, including instruction in sports and the organization of contests and its community leadership training activities furthered social welfare purposes under section 501(c)(4) of the Code. The development of youth through the program, annual international essay, oratorical and communication contest for the hard of hearing, as well as respect for law week/promotion of non-violence activities, youth appreciation and youth safety activities are all programs conducted for purpose of bringing about civic betterments and social improvement; and therefore, promote the common good and general welfare of the people in the community. See also Rev. Rul. 75-386, supra, (an organization that carries on activities in the general areas of public safety and crime prevention, housing and community development, recreation, and community services qualifies for exemption under section 501(c)(4)).

Your subordinates participate in your annual international junior golf championship to promote the interest of youth in amateur sports, to provide physical fitness and good sportsmanship. Your subordinates also conduct tri-star sports skills activities that offer children the opportunity to participate in sports such as basketball, baseball, soccer, football, and in-line skating. The Service has ruled that an organization that stimulates the interest of youth in the community in sports qualifies for exemption under section 501(c)(4) by promoting the common good and general welfare of the people of the community. See Rev. Rul. 68-118, supra (organization that furnished free admission for youth to professional sporting events was considered to provide wholesome entertainment for social improvement and welfare of the community under (c)(4)); See also Rev. Rul. 69-384, supra (the development of good sportsmanship, high character, and the physical well-being of young adults through the operation of an amateur baseball league promotes the common good and welfare of the people of the community); See Rev. Rul. 70-4, supra, (the promotion and regulation of a sport for amateurs promotes the common good and general welfare of the people of the community).

Furthermore, your subordinates are similar to the organization described in Situation 2 of Rev. Rul. 66-179, supra, which was found to be exempt under IRC 501(c)(4) and unlike the organization described in Situation 1 which was found to be exempt under section 501(c)(3). Situation 2 described a garden club that was organized for purposes of instructing the public on horticultural subjects and stimulating interest in the beautification of the geographic area but that also conducted substantial social functions for the benefit, pleasure and recreation of its members. Your subordinates are more like the organization described in Situation 2 because, although the clubs are operated for the purpose of providing youth development programs, through such activities as oratorical contests, youth recreational activities and other youth programs, they are also operated to further the social purposes of their members, more than insubstantially, and are therefore more appropriately exempt under section 501(c)(4) rather than section 501(c)(3).

### Applicant's Position

In your responses you proposed various changes including making specific changes to your member clubs. You stated "Assuming the Service becomes comfortable with the changes, we would ask that the pending group exemption under section 501(c)(3) be issued on a prospective basis effective November 21, 2008." You explained that the changes were "proposed" and you asked to "engage in "settlement" type discussions to determine exactly what modifications the Service will require in each instance." You outlined your disagreement with the Service's position and stated that "our immediate goal is to determine exactly what modifications must be made to the activities and operations...so that a group exemption can be granted." The following summarizes your proposed changes and discusses the areas of disagreement:

### Proposed changes

You proposed changes to your website. You stated "references to fellowship, personal development and association with like-minded people will be eliminated." Instead the website will read "financial management training for the member club and leadership training for club members to encourage future leaders of the member club."

You stated that the Organizational Renewal Plan was rejected and that if it is reinstated you proposed that it will not include any references to "social networking."

You proposed that you will request that the website of F delete the references stating that your members "will grow personally and enhance social and business relationships."

You proposed the model club committees for fellowship and social functions will be abolished.

You proposed deleting from brochures references to “fellowship and social networking.”

You proposed future newsletters will not publicize travel opportunities for members.

You proposed implementing a “Club Activities Report” which each member club will be required to complete annually that reports the volunteer hours expended for social activities, which are not fundraisers, relative to all volunteer hours expended by club members. The report will also request information relating to total club costs allocable to social activities, which are not fundraisers, relative to the costs of all events and activities of the club.

#### Draft Member Club Pledge

You submitted a “Draft Member Club Pledge” and stated that it addressed the issues raised by the Service. Your response included signed pledges from the sampled subordinate clubs. The pledge provides that the club agrees:

1. All speakers at Club meetings must present items of interest to the general public that are consistent with the charitable and educational purposes of X. Speakers will not present topics of personal benefit to Club members.
2. Other than the annual meeting at which Club officers are elected, all Club meetings will be open to the public. The Club will undertake reasonable efforts to encourage members of the general public to attend Club meetings other than the annual meeting.
3. Club activities, which are not fundraisers and which primarily involve social activities, shall be limited as follows:
  - a. Total volunteer hours expended by Club members in organizing and operating activities which are primarily social shall not exceed 5 percent of the total hours expended by Club members in organizing and operating all Club events for each fiscal year;
  - b. Total costs allocable to activities which are primarily social events shall not exceed 5 percent of the total costs of all costs for all activities of the Club for each fiscal year; and
  - c. The Club will comply with all recordkeeping requirements required by X to confirm satisfaction of the two aforementioned requirements.
4. Club marketing materials, including newsletters, designed to encourage participation by new members will not:
  - a. Promote the development of social and networking relationships;
  - b. Promote the improvement of personal skills, other than leadership skills which shall be promoted only for the purpose of developing new leaders for X member clubs;
  - c. Promote fun or camaraderie;
  - d. Promote personal return, other than the personal satisfaction that a Club member experiences as a result of giving to youth;
  - e. Promote personal fellowship; or
  - f. Promote the fact that a member will receive something in return for participating, other than the feeling one gets when he or she helps out a

person in need.

5. The club will not maintain a Fellowship Committee or a Social Committee, nor will any other committee of the Club engage in the promotion of any activity described in 4(a) through 4(f) above.

### Areas of Disagreement

You disagree that member clubs operate for more than an insubstantial non-exempt purpose. You contend that to characterize a meeting where a meal is served as social is simply wrong. You point out that meetings are “almost always open to the public, often present speeches from persons outside the club focusing on matters relating to community service to promote youth and public service, as well as identify successes in community outreach. In addition money raised by member clubs is used to achieve charitable and educational purposes, not for upkeep of meeting houses.” You also state the purpose of club meetings is to address ways to engage in community outreach. Further you state the meetings are not the activities which achieve your exempt purposes but instead represent an effective means to design, organize and implement activities which achieve your exempt purposes.

With respect to convention social activities, you contend that the Service ignores the fact that the social interaction is conducted as an adjunct to an activity which is already related to your exempt purposes.

### Specific Clubs

You contend that many of the events identified by the Service as social activities were instead fundraisers. With respect to club H, you state that “Even with respect to those events which are not fundraisers but involve social activities, such as a super bowl party and seafood appreciation dinner, the Service ignores the fact that these events are member recruitment events and the time and cost expended on such activities would almost certainly satisfy the 5% rule.” Also with respect to club H you state “the fact that the first hour of these meetings is referred to as “social” is simply a reflection that the first hour, which is not mandatory for attendees, does not involve the conduct of club business, which is specifically reserved for the second hour.” With respect to club J, you state that “Even if one were to treat the member meetings as a social function, the 5% Rule would be satisfied both with respect to time and cost associated with these meetings.” With respect to club K, you state that the club golf outing was a fundraiser and the baseball game event was a member recruitment event. With respect to club L, you contend that the newsletter statement “opportunity to renew old acquaintances and make new friends” was taken out of context as the event was to raise funds.

With respect to club N you state the members’ right to purchase discounted tickets to two community events (basketball game and symphony) involved virtually no club volunteer time and the club expended no club funds on the activity. With respect to club O’s St. Patrick’s and Valentine’s Day parties you state the activities are member retention and new member development events with time and expense associated with the events being minimal. You also contend the time and costs associated with movie

nights was materially insignificant in comparison with the time and costs expended in all club activities. Further, you state craft shows, football fun and basketball and golf tournaments are all fundraisers and not social events.

You state club P is now defunct and no longer included in the group exemption.

With respect to club Q, you state the Honeymoon Weekend, bridge group and golf outings are not even formal club events, as they involve no expenditure of time and money by the club. Instead the club's website was simply used by club members to make other members aware of these non-club activities.

With respect to club R, you state the Vegas Nights serves two functions, member recruitment and fundraising. The time expenditure and monetary cost of the club Christmas party and super bowl party is very insignificant relative to all club activities.

With respect to club S, you state the club is now defunct and no longer included in the group ruling.

#### Documentation

You provided additional documentation including the "Back to School" Workshops.

#### Applicant's Position Conclusion

You contend that most of the social activities are incidental to either a club meeting, designed to discuss ways to achieve exempt purposes, or a fundraiser. Further, you contend that other social activities involve such a limited expenditure of time and financial resources for the relevant club that it cannot be classified as anything other than incidental.

#### Service Response to Applicant's Position

We have considered your proposed changes as outlined. The facts continue to show your subordinates are not operated "exclusively" for IRC 501(c)(3) purposes as more than an insubstantial part of your operations include social and other non-501(c)(3) purposes.

Revenue Procedure 2010-9 (updated annually) explains that the determination letter is based solely upon the facts and representations contained in the administrative record. Proposed activities must be described in sufficient detail to permit a conclusion that the organization will clearly meet the particular requirements for exemption pursuant to the section of the Internal Revenue Code under which exemption is claimed. Both your past and your proposed operations include more than insubstantial social and other non-501(c)(3) purposes.

#### Service Response to Proposed Changes:

Your proposed changes included changes to your website and the websites of several subordinates; clarification of your leadership development; removal of the appreciation luncheon and entertainment expenses from your Convention agenda; removal of references to "social networking;" the abolishment of fellowship and social function committees; the deletion in brochures of references to "fellowship and social networking;" and you will not publicize travel opportunities for members. While the proposed changes show a willingness to modify several areas where the Service found evidence of non-IRC 501(c)(3) operations, the facts continue to show in both past and proposed operations evidence of more than insubstantial non-IRC 501(c)(3) operations. Subsequent reviews of your website and the websites of your subordinates continue to show fellowship and social purposes. For example, H's current website listed a "social" at 6 pm and a "family gathering" at a member's house where the "fellowship of friends and family was memorable." In addition an annual picnic was advertised as "bring a covered dish and a chair and join the fun." M's website continues to state "We also enjoy our Installation Banquet each fall; our Christmas parties; and our times when we just get together to be with friends." R's website states we "enjoy a few social events throughout the year" and describes the installation banquet as a social/dinner for members and spouses...a fun evening with other club members." Q's website describes weekly Friday meetings as "fellowship, camaraderie and good humor" and "new social and business relationships with people from a cross section of our community." Q's Christmas party was described as a "Christmas social for the club members and their families."

#### Service Response to Draft Club Activities Report and Draft Member Club Pledge:

The report and pledge both attempt to track and monitor various aspects of your subordinate clubs operations. As a parent of a group exemption, it is your responsibility to ensure that each subordinate meets the requirements of exemption under the subsection under which exemption is claimed. The report and pledge, as presented, do not adequately restrict each subordinates operations to exclusively IRC 501(c)(3) purposes; nor do they demonstrate satisfactorily the methodology of monitoring or ensuring compliance with IRC 501(c)(3) purposes. The draft report applies solely to volunteer hours expended for social activities and excludes social activities which may also be described as fundraisers. There was no explanation provided which distinguished a purely social activity from a social activity that is a fundraiser nor does there appear to be a method of capturing data on all operations, not just those that are social and not a fundraiser. Your draft member club pledge likewise applied only to social activities, which are not fundraisers and solely to volunteer hours. In addition, the pledge used the phrase "primarily social" and stated that the hours expended may not exceed 5 percent and costs may not exceed 5 percent. Here too there is no explanation of how "primarily social" is determined or how a social event may be distinguished from a fundraiser or other club operations. Further, there appears to be no explanation of how an activity is to be characterized when it includes a mix of both social and fundraising purposes. The 5 percent threshold is also insufficient as the Code simply states that no more than an insubstantial amount be devoted to non-501(c)(3) purposes. No more than insubstantial is not numerically defined and instead is based on all the facts and circumstances.

The removal of certain language from marketing materials and newsletters and the elimination of a fellowship or social committee do not demonstrate sufficiently such purposes and operations have been eliminated by your members clubs.

Service Response to Areas of Disagreement:

Clearly, your subordinates conduct numerous IRC 501(c)(3) activities. The issue remains to what extent non-501(c)(3) activities are conducted. The characterization of meetings as social was not made by the Service, but rather was language taken from the descriptions provided by you and your subordinates in newsletters, brochures and websites. The facts continue to show that more than an insubstantial part of your subordinates' operations is for non-501(c)(3) purposes.

Service Response to Specific Clubs

With respect to clubs H, J and K, you contend the specified events were member recruitment events and the time and costs expended would "satisfy the 5% rule." The literature describing the events did not mention member recruitment. Instead the events were described as a "family affair" and that there was a lot of "family fellowship" or you stated that the event was a "social event among members of the club, but also served as an event to encourage new members to join." There was no evidence showing the events were member recruitment activities. There was no evidence of solicitation of new members to attend the events, the number of prospective members attending, or the number of new members acquired as a result of the events. Further, as explained above, the Code does not numerically define "no more than insubstantial."

With respect to club N, even though the amount of time was minimal and no funds were expended the right to purchase discounted tickets to community events was clearly described as a benefit to members and was for a non-501(c)(3) purpose.

With respect to club O, you submitted no factual evidence that the St. Patrick's and Valentine's Day parties were member retention and new member development events. The facts describe the events as "fun social gatherings." You also provided no factual evidence to support that movie nights were materially insignificant or that craft shows, football fun and golf tournaments were fundraisers. The calendar of events listed 11 movie nights. No evidence was provided to support your position that craft shows, football fun and golf tournaments were fundraisers.

With respect to club Q you state the club's website was used by club members to make other members aware of non-club activities. As noted above the honeymoon weekend was an annual event, the bridge group was a monthly event and the golf events were described as numerous. The facts also discussed a number of other social events such as an annual square dance which was a "fun way to socialize with members." The website did not identify the events as "non-club activities." Instead the facts show the social events were frequent and were promoted as "member" events.

With respect to club R, you state Vegas Nights serves two functions, member recruitment and fundraising. R's website did not describe the events as member recruitment or as fundraisers. Instead the website stated that you "enjoy social events throughout the year, which include...Las Vegas night..." You go on to state the clubs Christmas party and super bowl party are "very insignificant relative to all club activities." However, you did not provide documentation showing how the significance of the events compared to all events was determined.

Service Response to Applicant's Position Conclusion:

Even though you state social activities are incidental, designed to achieve exempt purposes or involve limited expenditure of time or funds, you have submitted no factual evidence to support your claim. On the contrary, newsletters and websites define events as "social" and do not describe the events as otherwise.

### CONCLUSION

Despite your claim that the subordinates meet the requirements for classification under IRC 501(c)(3), the facts revealed numerous examples where non-501(c)(3) purposes and activities were present. Your characterization of the questionable purposes or activities as fundraisers and/or member recruitment events did not further your claim but rather weakened it as you provided no facts which supported your characterizations. By the same token, you failed to demonstrate you have adequate control to ensure your subordinates meet the "exclusively" standard of IRC 501(c)(3). Therefore, in accordance with Rev. Proc. 80-27 and Rev. Proc. 2010-4, we propose to deny your request for a modification of your group ruling to IRC 501(c)(3) as it is not in the interest of sound tax administration.

Alternative Issue: We conclude your proposed changes and corrections are not sufficient as proposed or as adopted. Further, if changes are made to the operations of your subordinates and it is determined you qualify for a group ruling under IRC 501(c)(3), in no event should approval be granted retroactively as the history, purposes and operations of your subordinates have clearly extended beyond the scope of IRC 501(c)(3).

The group ruling issued to you under IRC 501(c)(4) remains in effect. Contributions to organizations described in IRC 501(c)(4) are generally not deductible by donors.

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning.

You must submit the statement, signed by one of your officers, within 30 days from the date of this letter.

We will consider your statement and decide if that information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892; Exempt Organization Appeal Procedures for Unagreed Issues.

Types of information that should be included in your appeal can be found on page 2 of Publication 892, under the heading "Regional Office Appeal". These items include:

1. The organization's name, address, and employer identification number;
2. A statement that the organization wants to appeal the determination;
3. The date and symbols on the determination letter;
4. A statement of facts supporting the organization's position in any contested factual issue;
5. A statement outlining the law or other authority the organization is relying on; and
6. A statement as to whether a hearing is desired.

The statement of facts (item 4) must be declared true under penalties of perjury. This may be done by adding to the appeal the following signed declaration:

"Under penalties of perjury, I declare that I have examined the statement of facts presented in this appeal and in any accompanying schedules and statements and, to the best of my knowledge and belief, they are true, correct, and complete."

Your appeal will be considered incomplete without this statement.

If an organization's representative submits the appeal, a substitute declaration must be included stating that the representative prepared the appeal and accompanying documents; and whether the representative knows personally that the statements of facts contained in the appeal and accompanying documents are true and correct.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. To be represented during the appeal process, you must file a proper power of attorney, Form 2848, Power of Attorney and Declaration of Representative, if you have not already done so. For more information about representation, see Publication 947, Practice Before the IRS and Power of Attorney. All forms and publications mentioned in this letter can be found at [www.irs.gov](http://www.irs.gov), Forms and Publications.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter to you.

Please send your protest statement, Form 2848 and any supporting documents to the applicable address:

Mail to:

Internal Revenue Service  
Exempt Organizations  
P.O. Box 2508  
Cincinnati, OH 45201  
ATT:

Deliver to:

Internal Revenue Service  
EO Determinations Quality Assurance  
550 Main Street  
Cincinnati, OH 45202  
ATT:

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Robert S. Choi  
Director, Exempt Organizations  
Rulings & Agreements