



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

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

Release Number: **201123041**  
Release Date: 6/10/2011  
Date: March 18, 2011  
UIL Code: 501.03-00

Contact Person:  
Identification Number:  
Contact Number:  
Employer Identification Number:

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 subordinate 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,

Lois Lerner  
Director, Exempt Organizations

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  
GOVERNMENT ENTITIES  
DIVISION

Date: January 26, 2011

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

Legend:

C – State  
D – State  
x – Number of Member Clubs  
y – Number of Members  
F – Name of Foundation

UIL Index:

501.03-00  
501.03-04  
501.03-05  
501.03-08  
501.35-00  
501.04-00

Selected Clubs:

AA - City, State  
AB - City, State  
AC - City, State  
AD - City, State  
AE - City, State  
AF - City, State  
AG - City, State  
AH - City, State  
AI - City, State  
AJ - City, State  
AK - City, State  
AL - City, State  
AM - City, State  
AN - City, State  
AO - City, State  
AP - City, State  
AQ - City, State  
AR - City, State  
AS - City, State

AT – City, State  
AU – City, State  
AV – City, State  
AW – City, State  
AX – City, State  
AY – City, State

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 from section 501(c)(4) to section 501(c)(3) of the Internal Revenue Code of 1986. The basis for our conclusion with respect to your tax-exempt status 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 are a national organization with approximately x member clubs and more than y members. You were originally formed as an unincorporated association in the early 1900s. You were incorporated under the laws of the State of C in 19     and later relocated to the State of D. You were granted exemption initially under section 101(9) of the Revenue Act of 1934 in July 19    . Subsequently, you were granted exemption from Federal income tax under section 501(c)(4) of the 1954 Code as an organization "not organized for profit but operated exclusively for the promotion of social welfare" in January 19    . You, as the central organization, and your subordinate clubs were granted a group exemption under section 501(c)(4) of the Code. You created another organization, E, which is tax exempt under section 501(c)(3) of the Code to carry your charitable purposes.

You filed a Form 1023, Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code, requesting recognition as an organization described in section 501(c)(3) of the Code. With your Form 1023, you also requested a modification under section 501(c)(3) for your group exemption on behalf of 15 district clubs which agreed to be bound by your Constitution and Bylaws. You, however, planned to eventually modify all x clubs in your group exemption to section 501(c)(3) of the Code. You stated you further your purposes through your subordinate clubs. You develop and distribute program and other materials designed to educate subordinate clubs on how to conduct fundraising events and successful service projects. You have informed subordinate clubs of your request for modification of the group ruling. You represented that you have proactively contacted all of your subordinate clubs and districts through the mailing of educational materials that outlined their responsibilities as a 501(c)(3) organization, the differences between 501(c)(3) and 501(c)(4), and any changes that may need to be made to their existing governing documents to comply with 501(c)(3) standards. However, you tell your clubs: "We will communicate to you the exact changes you will need to make to the clubs' own governing documents. DO NOTHING NOW."

Because we determined that your group ruling request extended beyond the 15 district clubs, we selected twenty five subordinate clubs from various states and which varied in size to ensure a representative sampling of your subordinate clubs. We asked that you submit each subordinate club's organizing documents, income statements for the last three years, and information regarding operations.

#### Subordinate Clubs – Organization and Operation

You were asked to provide detailed information on the activities of the representative sample of subordinate clubs. You stated you rely heavily on your subordinate clubs to conduct your charitable and educational outreach programs and that such activities would never occur but for the organizational, promotional and coordination efforts you provide.

A summary of the information you submitted, including websites, narrative information, and meeting minutes, is set forth below. Some of your representative clubs have not included in their organizing document the requisite language limiting purposes and dissolution. For example, AD's Bylaws state the objects -- of the club include to promote the adoption of higher social, business and professional standards...to provide through this club, a practical means to form enduring friendships, to render altruistic service, and to build a better community." AD's Bylaws states "If a club is dissolved, assets will be donated to E." The Bylaws did not expressly state that at the time of dissolution E must be a qualified section 501(c)(3) organization. Operations of the clubs varied and included a mix of social activities, charitable activities and educational activities.

Your structure and guidelines for subordinate clubs as well as the clubs operations and written materials reflect social activities are a key component of a club. Your Standard Form and Bylaws have as objectives the promotion of higher "social" standards and a

means to form “enduring friendships.”

You provided the subordinate clubs’ primary sources of receipts are membership dues, contributions from the general public, and receipts from fundraising activities. The nature of expenditures includes dues to you, the cost of holding members’ meetings, the cost of conducting service projects, and administrative costs.

The following information was provided for each of the twenty five representative subordinate clubs. The clubs included:

- AA
- AB
- AC
- AD
- AE
- AF
- AG
- AH
- AI
- AJ
- AK
- AL
- AM
- AN
- AO
- AP
- AQ
- AR
- AS
- AT
- AU
- AV
- AW
- AX
- AY

AA:

Organization – AA’s Articles of Incorporation states the purposes are “evaluating children’s issues and community needs, conducting service projects to respond to these needs, and maintaining an active membership roster of business professionals who desire to help the

community in this respect.” There is no dissolution provision in the Articles of Incorporation.

Operation - AA conducts periodic charitable and educational activities such as donating candy and service hours to help facilitate the trick or treat event in a safe location for children; promoting awareness of farming; providing a BBQ for students at a local high school; sponsoring a Grad Night for the local high school graduating seniors; providing a Christmas party, small gifts, and food for children who are in an incarceration facility; and conducting a food drive. The club holds fundraisers such as Santa in the Park, taking photos for minimal fee to cover costs; an Easter pancake breakfast; and a radio auction.

In addition, the club holds weekly luncheon meetings. The meetings are very informal, and the itinerary consists of opening the meeting with the pledge of allegiance, singing, introduction of guests, committee or other announcements (if any); a guest speaker; and adjournment. You stated speakers speak on topics of general interest to the community. AA did not keep records of weekly guest speakers. AA's description of activities also included a benefit held for a member. Internet research (which was shared with you) revealed the member had cancer and the benefit was to raise money for the individual. Minutes of meetings also indicated savings bonds are purchased for members' new babies and further that AA “should recognize great events in members' lives.”

The club's sources of revenue are dues, fines, a banquet, and fundraisers. The club expends funds on dues to you, luncheons, the installation banquet, monies to speakers, fundraising, educational projects, and donations to charities.

AB:

Organization – AB is a corporation. AB's Articles of Incorporation state the purposes of the organization are

There is no dissolution

provision in the Articles of Incorporation.

Operation – AB conducts periodic charitable and educational activities such as taking photographs of homeless individuals and assisting them with making frames for the photos; providing manpower on the fourth Sunday of each month for an organization's canteen to deliver meals to homeless people; volunteering for an organization, collecting donations for two hours for two consecutive days; helping local citizens unload boxes of confidential papers to be professionally shredded; setting up displays of 150+ colleges for local high

schools for college fair events; holding a program which aims to prevent teenage suicides; holding an entrepreneurial forum to expose high school students to entrepreneurial concepts using real life examples and hands on exercises; sponsoring a shaken baby syndrome bib project; distributing children's books; working booths at the annual international festival; and joining an organization's annual parade.

The club holds weekly luncheon meetings. The meeting itinerary consists of a meal served, invocation, the national anthem, the pledge of the allegiance, president's welcome message, guest introduction and announcements, a speaker, and adjournment. The speakers are selected from business leaders, political leaders, social service leaders, sport authorities and other people of community interest. Club business is conducted by the trustees and committee chairs and motions are made to allocate funds to various community organizations. AB's brochure provides the meetings offer an atmosphere of "fun, learning, and fellowship." AB's website states AB is "the club of choice for busy professionals which provides social and business networking." The club holds monthly trustee meetings followed by fellowship and dinner. The club also maintains a chat-room for its members' e-club.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraising, and charitable and educational projects.

#### AC:

Organization - AC is an unincorporated association. AC provided a copy of its Standard Form for Club Bylaws which listed among its objectives

The Bylaws does not include a dissolution provision.

The club has a related section 501(c)(3) foundation undertaking its charitable and educational projects.

Operation – AC periodically provides volunteers for local charitable organizations.

The club holds weekly member meetings. The meeting itinerary consists of the pledge of allegiance, singing My Country 'tis of Thee, a prayer, president's welcome message, guest introduction, announcements, reports, business, a speaker, and adjournment. The speakers are from all sectors of business such as a mayor, a police chief, and non-profit representatives. The topics are selected by the speakers. Some topics are purely entertaining or just informative. Per AC's website, the club has no meeting on most Monday holidays, but holds a round table lunch for fellowship purposes.



The club holds a pancake fundraiser for the benefit of local charities and runs a concession stand at the local university's football games.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraising, and charitable and educational projects.

AD:

Organization – AD is an unincorporated association. AD provided a copy of its Standard Form for Club Bylaws which listed among its objectives

The Bylaws includes a dissolution provision that remaining assets would be distributed to F. The dissolution provision does not specify where the assets go if F is no longer in existence of a qualified recipient.

Operation – AD conducted periodic charitable activities that included providing volunteers for an organization every year for one whole day; providing awards for games held by an organization; providing a banquet for graduating honor society members; providing volunteers one evening at a local food bank; caroling at area nursing homes; visiting the local camp that houses a building donated by the club. Fundraisers include an annual pancake carnival fundraiser; a fundraising breakfast for the benefit of the local rape and abuse crisis center; and support for the local high school summer musical.

In addition, the club holds weekly member meetings. The meeting agenda included eating, the pledge, a patriotic song, announcements, introduction of guests, greetings, introduction of program, and a program. The program consists of a guest speaker. AD indicated the speakers are "typically business owners and directors of non-profits." The program schedules revealed a variety of speakers presenting information on state tourism, a sales tax initiative, a radio station, a neighborhood association, and active aging.

AD's newsletters revealed member events such as attending a local play and a sporting event. One newsletter stated a study was conducted to determine what attracts people [to you] is service and what keeps your members in a club is fellowship. The newsletter further described your top ten priorities. These included to improve the members' experience; grow existing clubs; open new clubs; develop leaders at all levels; create the next generation of programs; increase non-dues revenues; improve operations, support and alignment (work smarter); maximize communications, branding and PR; leverage technology in all cases; and create unexpected value for clubs and members.

Minutes of meetings indicated AD's weekly meetings include recordation of lunches and fellowship. AD's promise to members includes "fun, fellowship, and evidence of true

friendship....”

AD's club rules indicate members pay for dues and lunches quarterly and further that at special events, such as the spouses' night parties, a charge to cover the cost is made for each member as well as guest.

AD's member orientation materials listed membership benefits as including building friendships, enhancing leadership skills, developing business contacts, receiving...magazine and club communications, enjoying discounts and promotions, and insurance coverage for club projects.

Per AD's website, the club has different committees including a special events committee which is responsible for planning outings for the club such as attending football games or local theatrical plays.

The club's sources of revenue are dues, a banquet, luncheons, and fundraisers. The club expends money on dues to you, contributions to charitable and educational organizations, a banquet, weekly luncheons, fundraising, and charitable and educational projects.

AE:

Organization - AE is a corporation. AE's Articles of Incorporation state the nature of its business shall be, primarily, for community service and the objects shall be

The Articles restricts the distribution of assets upon dissolution to qualified section 501(c)(3) organizations.

Operation – AE conducts periodic charitable and educational activities such as organizing a night at the library where volunteers read to children and provide crafts and snacks; organizing a trash pickup day; and distributing dictionaries to schools. The club holds fundraisers such as a peanut day; a Christmas tree sale; and a basketball shoot. AE indicates a related party of a club member may be considered for a scholarship. AE did not indicate whether members' relatives were evaluated independently, selected in an unbiased manner or given preference.

The club holds weekly luncheon meetings. The club's brochure advertises that its meetings "...traditionally are held once a week and offer an atmosphere of fun, learning, and fellowship." The meetings consist of gathering, meals served, committees and other

announcements, a guest speaker, and adjournment. The guest speakers have included a school superintendent, a non-profit organization official, and a local business person. The topics presented included student club activities, information on a shelter for battered women, and the history of a local business. The club's committees are community services, youth services, membership, public relations, human and spiritual values, and fundraising.

The club's sources of revenue are dues and fundraisers. The club expends funds on dues to you, fundraising, and charitable and educational projects.

AF:

Organization - AF is a corporation. AF's Articles of Incorporation state its objects shall be

The corporation is organized exclusively for charitable, fraternal, educational and benevolent purposes. Membership "shall be limited to male residents within a five mile radius...." The Articles of Incorporation contains no dissolution provision.

Operation – AF conducts periodic charitable and educational activities such as repairing playgrounds for the community; providing volunteers to assist charities; reading to children; providing Christmas caroling to nursing homes and seniors' residential centers; and holding a special Thanksgiving program. The club also operates a day care center as well as sponsors a graduation day for the children attending its day care. The club holds many fundraising events such as spaghetti dinners.

The club holds weekly meetings. The speakers at the meetings have included individuals from non-profit organizations, a historian, a veterinarian, and a manager of a local motorcycle business. The topics have included information about planned giving, a university alumni center, and a youth football league.

AF publishes a weekly newsletter. The club also holds an installation banquet for new officers and leaders.

The club's sources of revenue are dues, childcare fees, luncheons, fundraisers, and donations. The club expends funds on dues to you and district, childcare expenses, weekly luncheons, fundraisers, and charitable and educational projects.

AG:

Organization – AG is a corporation. AG's Articles of Incorporation states the objects shall be

The Articles of Incorporation contains no dissolution provision.

Operation – AG conducts periodic educational and charitable activities such as organizing an art and talent show, a Halloween contest, a rodeo, an Easter egg hunt, and a reading project. The club also organizes a road race for the benefit of the community, a project benefiting children, a Christmas party for mentally handicapped persons, prepares troop packages for soldiers, and participates in an event with another organization.

The club holds weekly meetings. The meeting itinerary consists of a welcome, prayer, pledge to the flag, introduction of guests, announcements, meet and greet, the speaker of the day, and adjournment. The club indicated that it does not maintain records of the names of the speakers, but that the speakers are from government agencies, non-profit agencies, business persons, and have included a local stock broker, a banker, and a singing group. Some topics discussed have included the stock market, highway construction, railroad operations, security, and economics.

AG holds a weekly card game for members after the weekly meetings.

The club's sources of revenue are dues and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AH:

Organization - AH is a corporation. AH's Articles of Incorporation states its objects shall be

The Articles of Incorporation contains no dissolution provision.

Operation – AH periodically organizes projects for children such as a leadership project for high school students; sponsors a student project; and provides volunteer assistance to local charities.

The club holds monthly meetings and publishes newsletters and bulletins for members.

The club's sources of revenue are dues, luncheons, fundraisers, and donations. The club expends funds on dues to you and the district, weekly luncheons, fundraisers, and charitable and educational projects.

AI:

Organization – AI is a corporation. AI's Articles of Incorporation states its purposes shall be "social, charitable and educational. This corporation shall promote educational instruction among its members and other persons and will have the purpose of establishing and maintaining a club and places for reading rooms, libraries, and social meetings." The Articles of Incorporation contains no dissolution provision.

Operation – AI periodically supports charitable events by providing volunteer services at a blood donation drive, bed nights for the homeless, a food and clothing drive, and music in the park. The club collects glasses; provides pop for a teen center; provides lunch buddies for at-risk children; provides youth services; assists with park cleanup; provides dolls for hospital patients; and provides volunteers to assist charities in the community.

In addition, the club holds weekly meetings. The meeting itinerary consists of ring bell, sing, the pledge of allegiance, singing "America", invocation, welcome; guest introductions, mystery dollar, greeting, announcements and business, speaker introduction, gift presentation to the speaker, drawing of lottery ticket, and adjournment. The speakers are from different business sectors and the topics presented have included politics; foreign policy; a "delightful presentation on metal detectors"; a political columnist who spoke on election results; accounting software such as QuickBooks; financial; and business. AI also encourages members to take a "call to action" on legislation.

Per AI's website, the club invites people to join them for a fun and informative meeting any Wednesday at noon.

Per AI's weekly newsletter, the club holds a Valentine's Day social, a holiday party, a tour of a zoo, a golfing/hiking event, wine tasting, social/fundraising events and a dinner train social event.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, luncheons, fundraisers, and charitable and educational projects. The club also expends funds to support a local amateur hockey club which is a civic group.

AJ:

Organization - AJ is an unincorporated association. AJ provided a copy of its Standard Form for Club Bylaws which listed as its objectives

The Bylaws contains no dissolution provision.

Operation - AJ periodically organizes a special Santa for an area nursing home; reads and distributes books for a childhood educational program; sponsors disadvantaged children to camp; organizes a senior zoo project; volunteers at nursing homes; and provides Thanksgiving dinner for families of soldiers serving in Iraq. The club also contributes funds to local charities.

The club holds weekly meetings for members. The meeting itinerary consists of a call to order, singing a patriotic song, the pledge to the flag, invocation, dinner, announcements and committee reports, a program with a speaker, and a closing prayer. The topics discussed are of interest to members.

The club's sources of revenue are dues, dinners, fundraisers, and donations. The club expends funds on dues to you, weekly dinners, fundraisers, and charitable and educational projects. The club engages a professional fundraiser to raise funds on its behalf.

AK:

Organization - AK is a corporation. AK's Articles of Incorporation states the objects of the club shall be:

The Articles of Incorporation contains no dissolution provision.

Operation – AK conducts periodic charitable and educational activities such as organizing a baby food drive, collection of shoes for the poor, a park cleanup, kids and cops bike rodeo, a political forum for children debating on political issues, and providing volunteers to assist with local charities.

The club holds weekly meetings. The meeting itinerary consists of welcoming guests, anthems, prayer, announcements and committee reports; happy bucks (members pay one dollar to share what they are doing or important events such as anniversaries), administrative raffles, a speaker's program; and adjournment. The speakers are from different professional sectors such as a mayor, a nurse, a non-profit manager, a curator, a county executive, an engineer, and a watershed project manager. AK indicates that the club belongs to the local Chamber of Commerce and one or more of AK's members are generally present at the Chamber of Commerce's meeting to discuss AK. Membership in AK is by invitation only. The club recruits new members from friends, business colleagues, and individuals who inquire about the club at its activities such as bingo, theatre nights, park cleanups, bike rodeos, and food drives. AK's brochure describes the benefits of membership are "friendship, becoming aware of community needs and an opportunity to develop and participate in projects." AK also holds political forums and leadership retreats.

The club holds several fundraising events such as a plant sale, a silent auction, a theater night, weekly Bingo, and a meal project (where members skip a meal and donate to the club for the children's fund). Social events include an annual installation banquet and an annual barbeque at a member's home.

The club's sources of revenue are dues, luncheons, fundraisers, and donations. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AL:

Organization – AL is a corporation. AL's Articles of Incorporation states the objects of the clubs shall be

The Articles of Incorporation contains no dissolution provision.

Operation – AL conducts periodic charitable and educational activities such as holding achievement presentations and clergy appreciation day; providing volunteers at a clinic; and participating in a supply drive for an organization. The club also organizes a cleanup and beautification program at a local school; assists children's clubs; volunteers at the science fair; presents the awards at the science fair; and provides volunteers to assist local charities.

The club holds weekly meetings for members. Per the itinerary, the meetings consist of lunch, an opening statement, singing God Bless America, the pledge of allegiance, welcoming guests, celebrating birthdays and anniversaries, singing club's song, announcements, a speaker, and adjournment. The speakers are from different sectors of business. The general requirements are simply that the speaker must speak on topics which serve to enlighten those in attendance. The topics generally include those of a historical or local character, as well as those topics associated with children, children's services, and volunteer opportunities. The examples of speakers included a philanthropist a beekeeper, and a clown/magician. Topics have included government updates, road widening, sub-prime lending, and crime scene investigations.

AI's weekly meetings also include a segment where members shared personal happy or sad thoughts or events. This segment of the meeting accounts for 25% of the total meeting time. AI included comments in its weekly newsletter. Examples included one member telling a joke, another member being thankful for a new laptop computer, another thankful for a new granddaughter, another thankful that his son finished boot camp.

AL provides that members enjoy the following benefits: fellowship, networking, and an opportunity to give back to the community. On AL's website, the club states that it builds "lasting friendships and fellowship" often lacking in today's busy world and offers an opportunity to expand business and professional networking.

AL holds social events for members such as attending a baseball game and a 5-day cruise.

The club's sources of revenue are dues, luncheons, fundraisers, and donations. The club expends funds on dues to you, weekly luncheons, fundraisers, birthday and anniversary expenses, and charitable and educational projects.

AM:

Organization – AM is a corporation. AM's Articles of Incorporation states the purpose for which this corporation is formed is for benevolent and charitable purposes (as authorized by its state corporation act) and the objects for which this corporation was formed and under which this corporation is to be conducted are

The Articles contains no dissolution provision.

Operation – AM conducts periodic charitable and educational activities such as providing



volunteer assistance at the Halloween kids' night out and a science fair; sponsoring a monthly bingo night for residents of an area nursing home; supporting adopt-a-highway; holding an Easter egg hunt; and holding a breakfast to honor an outstanding record of community service of a member. The club participates in two parades.

The club holds weekly meetings. The meeting itinerary consists of a greeting, club business, a speaker, and adjournment. The speakers come from different professional sectors such as a teacher, a historian, an author, a policeman, a retired US army colonel, a tax advisor, a distributor manager, a financial advisor, FEMA personnel, a food pantry chairman, a motivational speaker and a minister. The topics discussed have included identity theft, war on terrorism, alternative minimum tax, products, current financial market situation, non-profit work and how individuals may assist, motivation, and civil war history.

On AM's website, the club states its membership consists of men and women of all ages who lead active lives, have a strong desire for community service and enjoy social fellowship.

The club's sources of revenue are dues, luncheons, bingo, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

#### AN:

Organization – AN is an unincorporated association. AN provided a copy of its Standard Form for Club Bylaws which listed its objectives

The Bylaws provides assets will be distributed upon dissolution to E. The Bylaws do not specify where assets go if E is no longer in existence or a qualified recipient.

Operation – AN periodically organizes and sponsors charitable and educational activities such as holding a senior high school students luncheon; sponsoring a boy scout troop; sponsoring a bus for after-prom for graduating seniors; organizing a pay-it-forward program; holding a national day of prayer breakfast; partnering in a library program; sponsoring the village tree lighting; and volunteering at local non-profit organizations' fundraising events.

AN holds weekly meetings. The meeting itinerary generally consists of the pledge, business and announcements, a speaker, and adjournment. Speakers are invited from different sectors of business and topics presented vary.

The club describes fundraising events as a benefit dinner, a pancake breakfast, and a golf

outing. The club also holds social events for members including a club Christmas party, a mayor's ball with 50/50 raffles, a casino night, an anniversary dinner, and a national day of prayer breakfast.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

#### AO:

Organization – AO is a corporation. AO's Articles of Incorporation states purposes as "creating and maintaining the widest interest in, and action on, community, national and international problems of a diverse character through personal services and cooperative effort. This corporation is formed for the purpose of encouraging the voluntary association of members, and to encourage fellowship and service in a club committed to the highest principles of conduct in business and social life." The Articles of Incorporation does not contain a dissolution provision.

Operation – AO has a separate section 501(c)(3) foundation that conducts their service projects. AO holds Thanksgiving dinner and raises funds to support the related foundation.

The club holds monthly board meetings and weekly members' meetings. The meetings' itinerary generally consists of call to order, patriotic song, pledge of allegiance, invocation, introduction of special guests, announcements and presentations, meal and social time, fun dollars (used for administrative expenses), speakers, split the pot, and adjournment. On national holidays such as the Fourth of July, the meetings will only consist of a round table luncheon. Speaker topics were "selected based on interests of members, responsiveness to current events and challenges facing our community and understanding our service providers." The speakers come from a broad spectrum of business. Speakers have included an individual discussing lawn bowling, a realtor, a mortgage broker, a winemaker, a business owner, a radio personality, a political commentator, and a photographer. The topics discussed have included zoning, campaign reform ideas, photography, real estate, wealth creation strategies, venture capital, emergency water supply project improvements, educational and charitable programs, and nuclear power.

The club's brochure states members are offered opportunities for friendships, civic and community contacts, informative and entertaining gatherings, development of personal leadership skills, and a sense of accomplishment. AO describes reasons to join the club include "a fun way to socialize" and "offers informative and entertaining gatherings, development of personal leadership skills, and a sense of accomplishment within your community."

The club lists fundraising events including bowling for a better community with silent auction, sale of beverages, sale of entertainment books, and sale of yearbooks.

AO also holds social events such as an annual installation banquet, jeopardy, a family picnic, and a party at a poolside grill.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AP:

Organization – AP is a corporation. AP's Articles of Incorporation states the objects of the clubs shall be

. The Articles of Incorporation does not contain a dissolution provision.

Operation – AP periodically organizes camp holiday events for children and contributes to a children's fund and local charities and provides volunteers hours to other organizations.

The club holds weekly meetings. The club's brochure states that the meetings commonly occur once a week and offer an atmosphere of fun, learning, and fellowship. The meeting itinerary consists of pledge of allegiance, patriotic song, a moment of silence, introduction of guests, dinner, announcements, a speaker, and adjournment. The speakers are from different professional sectors. The topics discussed are selected based on interests of the members, responsiveness to current events, challenges facing the community and understanding of other service providers. The topics have included winery, conservation, a research project, a joint venture, civil rights and liberties, service dogs, special advocates programs, area community correction, health benefits of acupuncture, politics, and presentations by a museum and the chamber of commerce.

The club's sources of revenue are dues, dinners, and fundraisers. The club expends funds on dues to you, weekly dinners, fundraisers, and charitable and educational projects.

AQ:

Organization – AQ is a corporation. AQ's Articles of Incorporation states the purposes are

The Articles of Incorporation contains no dissolution provision.

Operation – AQ periodically conducts charitable and educational activities such as sponsoring children to attend camp, a snowman contest, and a flag service project.

The club holds weekly meetings. The meeting itinerary consists of the pledge of allegiance, first verse of America, invocation, lunch, guest introductions, welcome song for the guests, announcements and other updates, introduction of new members, happy bucks, speaker, and adjournment. Meetings have included a Travel and Adventure Film series which included films on travel to areas such as Hawaii and Alaska.

The club conducts several fundraising events such as racing for dollars, 50/50 raffles, silent auctions, and donations from the speedway where members volunteer.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AR:

Organization – AR is an unincorporated association. AR provided a copy of its Standard Form for Club Bylaws which listed among its objectives

The Bylaws provides that upon the dissolution the assets will be distributed to E. The Bylaws does not specify where assets go if E is no longer in existence or a qualified recipient.

Operation – AR conducts periodic charitable and educational activities such as providing a guidance counselor at a high school; holding a shop and rock event for middle school students; and organizing an Easter egg hunt for children.

The club holds weekly meetings. The meeting itinerary consists of call to order, the pledge of allegiance, introductions, happy/sad dollars, president's message, a speaker, events update, last minute items, and adjournment.

The club conducts several fundraising events such as a steak dinner and a Santa breakfast.

The club's sources of revenue are dues, dinners, and fundraisers. The club expends funds on dues to you, weekly dinners, fundraisers, and charitable and educational projects.

AS:

Organization – AS is a corporation. AS's Articles of Incorporation states the object, business and pursuit shall be the advancement of the interest of the club and to conduct activities in accordance with your Constitution and Bylaws. Your Constitution and Bylaws state the purposes are

AS's Articles of

Incorporation contains no dissolution provision.

Operation – AS sponsors related youth clubs; organizes meals on wheels; contributes funds and volunteer services in support of a camp for children and adults with disabilities; supports the children's cancer center at the local hospital; supports local schools and day care centers; feeds the homeless; organizes a community cleanup day; and volunteers for local charities.

AS holds weekly meetings for members. The meeting itinerary consists of call to order, the pledge of allegiance, guest introductions, business and reports, member recognition, a speaker, and adjournment. The speakers have included an attorney and a hypnotist. The topics discussed included how to quit smoking, meth and how it affects the family, and the city slogan. The club's brochure states the meetings offer fun, learning, and fellowship. Member's benefits include fun; fellowship; enjoyment of true friendship; interesting programs; and social events.

The club conducts several fundraising events such as a tree sale, a fundraising dinner, and concession stands.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AT:

Organization – AT is an unincorporated association. AT provided a copy of its Standard Form for Club Bylaws which listed among its objectives

The Bylaws provides that upon dissolution assets will be distributed to F. The Bylaws does not specify where assets go if F is no longer in existence of a qualified recipient.

Operation – AT hosts academic achievement awards for students at local schools and volunteers for a local charity.

The club holds member meetings every other week. Per AT's website, the club advertises one of its member benefits is "camaraderie" and its monthly meetings offer an opportunity to get to know other business and volunteer leaders in the community. The meeting itinerary consists of invocation, the pledge of allegiance, singing, speaker/program, lunch, announcements, and closing. Speakers have included a coroner candidate, a physician, a massage therapist, and a forensic student.

As fundraisers, the club holds radio auctions and pancake breakfasts. The club also holds social events such as a hayride, a wagon ride, and a member picnic.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, luncheons, fundraisers, and charitable and educational projects.

AU:

Organization – AU is a corporation. The Articles of Incorporation was not submitted, however, a non-conformed copy of the Articles of Revival was submitted. There is no indication of AU's purpose or dissolution provisions. AU provided a copy of its Standard Form for Club Bylaws which listed among its objectives

Bylaws included a dissolution clause that provided for the disposition of assets to F.

Operation – AU conducts periodic charitable and educational activities such as sponsoring a special needs and disadvantaged children's project, a prenatal care project, a therapeutic riding program, a most improved student awards program, service leadership programs, and the county safety kid's coalition.

AU holds weekly meetings. The speakers are from the local charitable and educational organizations, businesses, and local agencies. The club does not maintain records of speakers and topics discussed.

The club wraps Christmas gifts at a mall as a fundraiser. The club also holds social events

such as a picnic. The club's newsletter described the picnic as "great food, yard games, and drinks for all" and indicated that it was being held at a member's home.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AV:

Organization – AV is a corporation. AV's Articles of Incorporation states the purposes are

The Articles of Incorporation contains no dissolution provision.

Operation – AV conducts periodic charitable and educational activities such as supporting and sponsoring children's projects, a youth leader project, and a student project. The club also provides volunteer assistance at a hospital, a church, a head start, and local charities. The club raises funds to provide a scholarship to specifically named individuals.

The club holds weekly meetings. Twice a month a program is included as part of the meeting. The meeting itinerary consists of call to order, the pledge of allegiance, invocation, reports and announcements, committee assignments, business, program (if any), and adjournment. The speakers are from a broad spectrum of businesses. The topics have included holistic business; a personal experience from an individual's 2 ½ year trip around the world trip, and a presentation by the US Forest Service.

AV holds several social events for members such as a golf outing, Christmas party, a summer social, and fly-fishing.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AW:

Organization – AW is an unincorporated association. AW did not submit any organizing document, but provided that the club adopted your standard Bylaws which stated the club objectives shall be among its objectives

The Bylaws does not contain a dissolution clause.

Operation – AW sponsors an annual strawberry festival. Events include a pageant, parade, horseshoe tournament, strawberry judging, strawberry auction, carnival, 5K run, arts and crafts, and live entertainment. The club conducts the 4<sup>th</sup> of July fireworks show with assistance from the city. The club sang Christmas carols at a local nursing home; hosted a kid's day football event; and contributed funds to local charities.

The club holds weekly meetings. The meeting itinerary consists of the pledge of allegiance, prayer, a speaker, business, and adjournment. The speakers are from a wide array of expertise such as local law enforcement, city hall, fire departments, and the local conservation district. The topics have included the environment, child care, sports, and school activities.

The sources of revenue are dues, weekly luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, and charitable and educational projects.

AX:

Organization – AX is an unincorporated association. AX provided a copy of its Bylaws which listed among its objectives

The Bylaws does not contain a dissolution clause.

Operation – AX conducts many educational and charitable activities such as organizing a clothesline project; sponsoring a Christmas party for disabled children; providing books for children; providing Christmas craft activities for children and senior citizens at the nursing homes; holding an Easter egg hunt for children; and participating in an adopt-a-highway program. The club also provides volunteer assistance for local charities.

The club holds weekly meetings for members and monthly Board meetings. The meeting itinerary consists of call to order, minutes, reports, business and announcements, a speaker, and adjournment. The speakers are from a variety of businesses such as a local charity, talk show radio host, and magazine owner. The topics have included school expansion, a new sports arena, relationships, and the housing market.

The club also organizes social events for members such as a Christmas party.

The club holds several fundraising events such as coloring book sales and a chili dinner.

The club's sources of revenue are dues, luncheons, and fundraisers. The club expends funds on dues to you, weekly luncheons, fundraisers, a club party, and charitable and



educational projects.

AY:

Organization – AY is a corporation. AY's Articles of Incorporation states the purposes are to “engage in civic, recreational, educational, and charitable activities designed  
The Articles provides that upon dissolution assets will be distributed to a worthy non-profit corporation or association...which is organized or created and carried on for similar purposes.

Operation – AY provides periodic funds to support charitable and educational activities.

The club holds weekly meetings for members. The meeting itinerary consists of call to order, prayer, pledge, singing, announcements, a speaker, and adjournment. The speaker is usually someone who is involved with a charity or an area of members' interest such as a hobby, a trip or an experience.

AY holds several fundraising events such as pancake breakfasts and a quilt raffle.

The club's sources of revenue are dues, breakfasts, and pancake fundraisers. The club expends funds on dues to you, weekly breakfasts, fundraisers, and charitable and educational projects.

### LAW

Section 501(c)(3) of the Code 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.

Section 501(c)(4) of the Code provides that civic organizations not organized for profit but operated exclusively for the promotion of social welfare are exempt from Federal income tax.

Sections 1.501(c)(3)-1(b)(1)(i) and 1.501(c)(3)-1(b)(4) of the Income Tax Regulations provide that an organization is organized exclusively for one or more 501(c)(3) exempt purposes only if its articles of organization:

- Limits the purposes of such organizations to one or more exempt purposes,
- Does not expressly empower the organization to engage, other than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes, and
- Permanently dedicates the organization's assets to 501(c)(3) purposes on dissolution.

Section 1.501(c)(3)-1(c)(1) of the 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 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 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.

Rev. Rul. 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.

Rev. Rul. 66-179, 1966-1 C.B. 139 described 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).

Rev. Rul. 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.

Rev. Rul. 68-118, 1968-1 C.B. 261 provided 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.

Rev. Rul. 69-384, 1969-2 C.B. 122 provided 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.

Rev. Rul. 69-573 described a college 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).

Rev. Rul. 70-4, 1970 1-C.B. 126 provided 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 which promotes the common good and general welfare of the people of the community.

Rev. Rul. 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.

Rev. Rul. 75-386, 1975-2, C.B. 211 provided that a nonprofit organization formed for the purpose of promoting 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.

Rev. Rul. 77-366, 1977-2, C.B. 192 provided 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.

Rev. Proc. 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.

Rev. Proc. 2011-9, 2011-2 I.R.B. 258 (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.

In Better Business Bureau v. United States, 326 U.S. 278 (1945), the court held that an organization is not operated exclusively for charitable purposes, and thus 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, we have concluded that it is not in the interest of sound tax administration to approve your request for modification of your group ruling to section 501(c)(3). The reasons include:

1. Organizational Test – All sampled subordinate clubs fail the organizational test.
2. Operational Test - More than an insubstantial part of your subordinate clubs' activities are not in furtherance of an exempt purpose under section 1.501(c)(3)-1(c)(1) of the Regulations. Further, some subordinates conduct activities which warrant individual consideration rather than inclusion in a group ruling.

Your subordinate clubs are currently classified as organizations exempt under a group ruling under section 501(c)(4). Under section 501(c)(3), an organization must show that it is organized and operated exclusively for section 501(c)(3) purposes. Per 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).

### Organizational Test

The facts above show subordinate clubs are not as described in section 501(c)(3) of the Code or section 1.501(c)(3)-1(b)(1)(i) and 1.501(c)(3)-1(b)(4) of the Regulations because they are not organized exclusively for section 501(c)(3) purposes. Specifically, the purposes as stated in Articles of Incorporation or other creating documents were broader than permitted under section 501(c)(3). For example, several clubs' stated purpose included the "promotion and adoption of higher social, business and professional standards...a practical means to form enduring friendships" which is clearly not consistent with the language of section 501(c)(3). Most of the clubs do not have a dissolution provision in their Articles of Incorporation or creating document. A few subordinate clubs did have a dissolution clause; however, the clause did not specifically restrict assets upon dissolution for 501(c)(3) purposes. As noted above, clubs AD, AN, AR, AT, and AU have dissolution provisions; however, the language does not restrict assets upon dissolution to a qualified 501(c)(3) entity. Even though E may currently be classified as a qualified 501(c)(3) entity, the dissolution provision did not state that the named recipient would only receive the assets if upon dissolution it was then a qualified section 501(c)(3) entity.

As noted above in the facts, you have specifically directed your subordinates clubs to "DO NOTHING NOW." The organizational test standing alone is sufficient to disqualify an entity from exemption under section 501(c)(3).

### Operational Test

The facts above show the sampled subordinates are not as described in section 501(c)(3) of the Code and Regulations because they are not operated exclusively for section 501(c)(3) purposes. Although your subordinate clubs do conduct some charitable and educational activities, you have failed to show that the subordinate clubs are operated exclusively for one or more tax exempt purposes as required by section 501(c)(3) of the Code and section 1.501(c)(3)-1(c)(1) of the Regulations. The facts show that fellowship, friendship and social activities are more than an insubstantial part of operations. Activities of some clubs are broad and range from the operation of a day care, bingo, and the presentation of legislative topics or candidate speeches at meetings. Private benefits were conveyed in the form of savings bonds for members' children and a fundraiser for a specifically identified member. Private benefit was also conveyed to members through networking and development of business and leadership skills.

Further, the facts show some subordinates, such as AC and AO have related section 501(c)(3) foundations who carry out their charitable and educational programs which reduces or eliminates the charitable operations of those subordinates.

### 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 of Washington, D.C., Inc., supra. Furthermore, a more than an insubstantial social purpose will defeat exemption under section 501(c)(3). See First Libertarian Church v. Commissioner of Internal Revenue, supra (church that operated for social and political purposes to more than insubstantial degree failed to qualify for exemption under section 501(c)(3). See Rev. Rul. 73-439 (non-exempt discussion group held meetings that were more akin to socializing that takes place at meetings of fraternal and professional clubs); Rev. Rul. 77-366 (winter cruise with religious and educational purposes, as well as social and recreational activities, not exempt under 501(c)(3)); and Rev. Rul. 66-179 (garden club that conducts substantial social functions not exempt under 501(c)(3)).

As noted above, your structure and guidelines for subordinate clubs as well as the clubs operations and written materials reflect social activities are a key component of a club. Your Standard Form and Bylaws have as objectives the promotion of higher "social" standards and a means to form "enduring friendships." Subordinate clubs promote the fellowship of members. For example, AC selected speakers which were "purely entertaining or just informative." AE's member brochure describes meetings as "an atmosphere of fun, learning and fellowship." Your subordinate clubs are unlike the organization described in Rev. Rul. 68-72, *supra*, because a substantial component of the clubs is devoted to planning and carrying out activities that do not further 501(c)(3) purposes.

Your marketing and public information on behalf of your member clubs also shows that you are engaged in more than insubstantial social and networking activities in contravention to section 501(c)(3). 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 keys to your subordinate clubs' operations. AD's newsletter listed your top ten priorities as including "improve the member experience, grow existing clubs, open new clubs, develop leaders at all levels...create unexpected value for clubs and members." AE's brochure describes its meetings as "fun, learning and fellowship." AK's member information materials states the club is a member of the local chamber of commerce and a benefit of membership is "friendship, becoming aware of community needs, and the opportunity to develop and participate in projects...." AO's brochure gives among the reasons to join "a fun way to socialize" and "offers informative and entertaining gatherings, development of personal leadership skills, and a sense of accomplishment within your community."

An analysis of a representative sample of your subordinate clubs shows that they are not operated exclusively for tax exempt purposes under section 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. Clubs conduct weekly meetings at which members eat a meal and listen to various speakers. Although the 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 members were more akin to the socializing that takes place at the meetings of fraternal and professional clubs. AD's newsletter describes a "fall rally" as a dinner for members and guests. AD in its rules for charges and credit explained at special meetings, such as the Spouses' Night Parties, a charge is made for the member as well as guest. Further, AB maintains a chat room for its members' e-club.

Weekly meetings were described as a "fun way to socialize" and an "atmosphere of fun, learning, and fellowship." See section 1.501(c)(3)-1(c)(1) of the Regulations. Clubs such as AA included in their weekly meetings a segment where members shared personal happy or sad thoughts or events. AI indicated this segment of their meeting accounts for 25% of the total meeting time. AI included comments in its weekly newsletter. Examples included one member telling a joke, another member being thankful for a new laptop computer, another thankful for a new granddaughter, another thankful that his son finished boot camp. AK described this portion of their meeting as "members pay one dollar to share what they are doing or important events such as anniversaries."

Speakers at meetings were typically selected by members or officers of the clubs. AA indicated speakers were typically business owners or directors of non-profits. AO stated speaker topics are "selected based on interests of the members, responsiveness to current events and challenges facing our community and understanding our service providers." AE



indicated speakers included a local businessman who talked about his business and its history. AF's speakers included a manager of a local motorcycle business. AG's speakers included a local stock broker and a banker as well as a speaker discussing highway construction and railroad operations. AI's speakers included an individual who gave a "delightful presentation on metal detectors." AM's speakers included a tax advisor, a financial advisor, and topics included the financial market and motivational topics. AO's speakers included an individual discussing lawn bowling, a realtor, a mortgage broker, a winemaker, a business owner, a radio personality and a photographer. AQ's meetings included a "Travel & Adventure Film Series" which includes films on travel to areas such as Alaska and Hawaii.

Recreational events were described by your subordinate clubs. 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 headquarters for their entertainment. AD's events included attending theatre productions and plays, and sporting events. AG holds card games after weekly meetings. AI's events included a members' dinner train social, a Valentine's Day social, a holiday party, tour of the zoo, golfing/hiking and a wine tasting. AK's social events included a BBQ. AM holds a Christmas party and a mayor's ball and members attended a theatre production. AL's events included attending a baseball game and a 5 day cruise. AO's social events included a professional sports event as well as a holiday party.

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 AA which conducted a golf tournament and a clay shoot, AF held a spaghetti dinner fundraiser, AI's fundraisers included a BBQ dinner and AO held a golf tournament. AN's fundraisers included a breakfast, dinner, and golf outing.

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."

Your subordinate clubs' activities are similar to the organization in Rev. Rul. 73-439, *supra*, in which your subordinate clubs confer private benefits to members. As noted in the facts AA participated in a benefit for a member and gives savings bonds to members' children and stated the club "should recognize great events in members' lives." AE indicated a related party of a club member may be considered for a scholarship. AV raises funds to provide scholarships to specifically named individuals. In addition, clubs further benefit

members specifically AB indicates it provides “business networking.” AD lists a member benefit as “enhance leadership skills and develop business contacts.” AG’s meeting topics included the stock market, security and the economy. AL indicated meeting topics “enlighten those in attendance.” AM’s topics included the financial market, wealth creation and venture capital. These facts show operations are a benefit to members.

Your subordinate clubs’ activities are similar to the organization in Better Business Bureau v. United States, 326 U.S. 278 (1945), supra, in that several of the clubs conducted gaming activities including bingo. For example, AK held regular bingo games. AM conducts bingo games and AN conducts 50/50 raffles.

Your subordinate clubs’ activities are similar to the organization in First Libertarian Church v. Commissioner of Internal Revenue, supra, in which some subordinate clubs also conducted legislative activities. AD’s standard club form and bylaws stated among its purposes was to keep its members and the community informed on all questions of public importance and any proposed legislation affecting the community. Further, the club shall have the right, and it shall be its duty, from time to time to give expression by proper means and attitude on such public questions and proposed legislation. AD’s speakers included individuals who spoke on a sales tax initiative and a smoking initiative. AI’s speaker list included a political columnist who discussed results of the election. AI’s meeting topics included politics, foreign policy and election results. AN’s members participated in a “Meet the Candidates” event. AO’s speakers included an individual discussing campaign reform. AO’s speakers included a political commentator.

### Social Welfare Purpose

Section 501(c)(4) of the Code 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. 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 subordinate clubs’ primary purposes are

Your subordinate clubs’ purposes as stated in the Articles of Incorporation or the bylaws have not been changed since they adopted your Bylaws or your membership

agreement. Your subordinate clubs 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. Your subordinate clubs' meetings, fundraising activities, and periodic support of charitable and educational projects 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*, which provides that 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 subordinate clubs support or sponsor related youth organizations which carry out youth leadership programs and good sportsmanship programs. 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* which provides that an 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* which provides that 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; and see Rev. Rul. 70-4, *supra*, which provides that the promotion and regulation of a sport for amateurs promotes the common good and general welfare of the people of the community.

Furthermore, your subordinate clubs are similar to the organization described in Situation 2 of Rev. Rul. 66-179, *supra*, which was found to be exempt under section 501(c)(4) of the Code 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 subordinate clubs are more like the organization described in Situation 2 because; although your subordinate clubs are operated for the purpose of providing youth development programs; your subordinate clubs are also operated to further the social purposes of your members, more than insubstantially, and are therefore more appropriately exempt under section 501(c)(4) rather than section 501(c)(3).

#### Require Individual Determination and Review

Based on the information submitted, several of the representative subordinate clubs conduct activities which due to their complexity and nature require individual determination and review. For example; AF operates a day care center, AK conducts weekly bingo, AM

conducts monthly bingo, almost all clubs held a weekly raffle/split the pot, and AY conducts a quilt raffle. AC and AO maintain separate 501(c)(3) organizations in which charitable and educational activities are being conducted. AD, AI, AN, and AO all conduct legislative activities.

### Applicant's Position

#### Organizational Test

You stated you will tell your subordinate clubs to amend their organizing documents when they are granted the modification of the group exemption to 501(c)(3).

#### Operational Test

You stated your subordinate clubs' service projects address local needs, contributing to the improvement of life, especially for children. The clubs hold fundraisers to support these service projects. However, some clubs maintain separate 501(c)(3) organizations for which charitable and educational programs are undertaken.

Your subordinate clubs assert that recreation, fellowship, and networking are incidental and natural byproducts of your charitable and educational activities, emphasizing they are natural occurrences when a group of people with a common cause get together. You stated that your member clubs' financial resources are not spent on such activities and you intend to communicate to clubs that they need to ensure this remains the case. You stated that as it is necessary and appropriate, your and your clubs' websites will be revised.

You described some outings and other activities as member recruitment events and argued that recreation, fellowship, and networking are natural byproducts of your charitable and educational activities, just as it is with any nonprofit organization that involves volunteers joining together to conduct charitable and educational activities. You claim that recreation, fellowship, and networking are natural occurrences when a group of people with a common cause get together.

You indicated that you further your purposes through them. In fact, you state that you rely heavily on your subordinate clubs to conduct your charitable and educational outreach programs and admit that you do not conduct service projects yourself, but the subordinate clubs do carry out the service projects you develop. You develop and distribute program and other materials designed to educate members on how to conduct fundraising events, how to conduct membership drives, and how to conduct successful service projects. You further represent that social and recreational activities are paid for personally by those who choose to participate in such activities, that none or very little of your or club's financial resources are spent on such activities. You intend to communicate to clubs that they need to ensure that this remains the case. You indicated that where it is necessary and appropriate, websites will be revised.

### Service's Response to Applicant's Position

In your case, the enhancement of social networking and other member recruitment and retention activities are not merely incidental to accomplishing charitable purposes. For example, newsletters, minutes, membership recruitment materials, etc. emphasize as a purpose the development of friendships and having fun. AC indicates that it holds a round table lunch for fellowship 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 exemption under section 501(c)(3).

Despite your claim that your subordinate clubs conduct many charitable and educational activities, your subordinate clubs failed to show they are organized and operated exclusively for charitable or educational purposes as described in section 501(c)(3) of the Code. Instead, the facts show subordinate clubs do not meet the organizational test and further, the facts show that the subordinate clubs do not meet the operational test.

You represent your subordinate clubs carry out charitable and/or educational purposes as you guide them. Even though your subordinate clubs were informed on some of the differences between section 501(c)(4) and section 501(c)(3); you advised them to "DO NOTHING NOW" and that you would provide further guidance at a later date.

You represent your subordinate clubs' meetings are held in furtherance of educational and charitable purposes. However, the weekly meetings are a mix of educational and social networking activity which includes educational and business sessions for members, a fellowship meal, and a topic of members' interests. Some of your subordinate clubs' websites represent that meetings are "fun" and "fellowship".

Your subordinate clubs conduct more than insubstantial social and networking activities such as maintaining a social committee for club's social events; holding member meetings for fellowship; and holding membership parties.

Despite your claim that your subordinate clubs are organized and operated for charitable or educational purposes, you failed to provide sufficient evidence that your subordinate clubs operate exclusively for charitable or educational purposes

Your subordinate organizations do not meet the operational test required under section 501(c)(3) of the Code. You failed to demonstrate that your subordinate clubs are operated exclusively for charitable or educational purposes. Your subordinate clubs are engaging in social and recreational activities as more than an insubstantial part of their operations. Your subordinate organizations' meetings and activities include a substantial degree of social networking and fellowship components such as fellowship, social events, members' greetings and personal achievements, and a comingling round table lunch or dinner.

Despite your claim that recreation, fellowship, and networking are natural byproducts of your subordinate clubs' charitable and educational activities, we have concluded that the enhancement of social networking and other member recruitment and retention activities that your subordinate clubs engage in are not merely incidental to accomplishing charitable purposes, but they are more than an insubstantial part of the activities conducted by your clubs. For example, AT's website advertises one of member's benefits is "camaraderie".

You have failed to demonstrate that your subordinate clubs are operated for exclusively 501(c)(3) purposes. For example, AD's website states that the club has different committee including a special events committee which is responsible for planning outings for members. Furthermore, you have failed to demonstrate that you, as the central organization, have full supervision and control over your subordinate clubs in accordance with Rev. Proc. 80-27; and therefore, it is not in the interest of sound tax administration for us to modify your subordinate clubs from section 501(c)(4) to 501(c)(3). In addition, the parent or central organization overseeing subordinate clubs that conduct substantial non-(c)(3) activities will not be recognized as organized and operated exclusively for charitable or educational purpose.

In accordance with Rev. Proc. 80-27, some subordinate clubs conduct activities that need careful review and determination individually and therefore, it is not in the interests of sound tax administration to modify the group exemption from section 501(c)(4) to section 501(c)(3).

### Conclusion

Based on the information you submitted, and, in accordance with Rev. Proc. 80-27 and Rev. Proc. 2011-9, we deny your request for a modification of your group ruling to section 501(c)(3) of the Code as it is not in the interest of sound tax administration. As the facts show your subordinate clubs fail the organizational test, which standing alone, is sufficient to deny your request. Subordinate clubs also fail the operational test, which standing alone, is sufficient to deny your request. Your subordinate clubs conduct more than insubstantial activities which are not described in section 501(c)(3) of the Code. Further, some subordinate clubs conduct activities which require individual review. Accordingly, we conclude it is not in the interest of sound tax administration to grant your request for modification of your group ruling to section 501(c)(3) of the Code.

#### Alternative Issue Conclusion:

Further, if during the appeals process, changes are made to the operations of your subordinate clubs and it is determined you qualify for a group ruling under section 501(c)(3) of the Code, in no event should approval be granted retroactively as the history, purposes, and operations of your subordinates have clearly extended beyond the scope of section 501(c)(3) of the Code.

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. 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. That letter will provide information about filing tax returns and other matters.

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

Deliver to:

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

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 receipt of 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,

Lois Lerner  
Exempt Organizations