



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

**DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
Attn: Mandatory Review, MC 4920 DAL  
1100 Commerce St.  
Dallas, TX 75242**

**Date: February 9, 2016**

**Number: 201620014**  
**Release Date: 5/13/2016**

**Employer Identification Number:**

**Person to Contact/ID Number:**

**Contact Numbers:**

UIL Code: 501.10-00

Dear \_\_\_\_\_ :

In a determination letter dated November 19XX, you were held to be exempt from Federal income tax under section 501(c)(10) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(10) of the Code. Accordingly, your exemption from Federal income tax is revoked effective January 1, 20XX. This is a final adverse determination letter with regard to your status under section 501(c)(10) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. On November 6, 20XX you signed Form 6018-A, *Consent to Proposed Action*, agreeing to the revocation of your exempt status under section 501(c)(10) of the Code.

You are required to file Form 1120 U. S. Corporation Income Tax Return for year ending December 31, 20XX with the Ogden Service Center. In addition, for future periods, you are required to file Form 1120 with the appropriate service center indicated in the instructions for the return.

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to

resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit [taxpayeradvocate.irs.gov](http://taxpayeradvocate.irs.gov) or call 1-877-777-4778.

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

Thank you for your cooperation.

Sincerely,

Paul A. Marmolejo  
Acting Director, EO Examinations

**Department of the Treasury**  
**Internal Revenue Service**  
**Tax Exempt and Government Entities Division**  
Exempt Organizations: Examinations  
1100 Commerce Street MC4900DAL  
Dallas, TX 75242-1100

Date: October 15, 2015

Taxpayer identification number:  
Form:

Tax year(s) ended:

Person to contact/ID number:

Contact numbers:

Manager's name/ID number:

Manager's contact number:

Response due date:

**Certified Mail – Return Receipt Requested**

Dear

**Why you are receiving this letter**

Enclosed is a copy of our report of examination explaining why revocation of your organization's tax-exempt status is necessary.

**What you need to do if you agree**

If you agree with our findings, please sign the enclosed Form 6018-A, *Consent to Proposed Action*, and return it to the contact at the address listed above. We'll send you a final letter revoking your exempt status.

**If we don't hear from you**

If we don't hear from you within 30 calendar days from the date of this letter, we'll process your case based on the recommendations shown in the report of examination and this letter will become final.

**Effects of revocation**

In the event of revocation, you'll be required to file federal income tax returns for the tax year(s) shown above. File these returns with the contact at the address listed above within 30 calendar days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

**What you need to do if you disagree with our findings**

If you disagree with our position, you may request a meeting or telephone conference with the supervisor of the contact identified in the heading of this letter. You also may file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information, including a statement of the facts, the applicable law and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

If you and Appeals don't agree on some or all of the issues after your Appeals conference, or if you don't request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court after satisfying procedural and jurisdictional requirements.

You may also request that we refer this matter for technical advice as explained in Publication 892. Please contact the person identified in the heading of this letter if you're considering requesting technical advice. If we send a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, then no further IRS administrative appeal will be available to you.

**Contacting the Taxpayer Advocate Office is a taxpayer right**

You have the right to contact the office of the Taxpayer Advocate Service (TAS). **TAS is your voice at the IRS. This service helps taxpayers whose problems with the IRS are causing financial difficulties; who have tried but haven't been able to resolve their problems with the IRS; and those who believe an IRS system or procedure is not working as it should. If you believe you are eligible for TAS assistance, you can call the toll-free number 1-877-777-4778 or TTY/TDD 1-800-829-4059. For more information, go to [www.irs.gov/advocate](http://www.irs.gov/advocate).** If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service  
Office of the Taxpayer Advocate

**For additional information**

If you have any questions, please call the contact at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Margaret Von Lienen  
Director, EO Examinations

Enclosures:  
Report of Examination  
Form 6018-A  
Publication 892  
Publication 3498

|  |                              |                               |
|--|------------------------------|-------------------------------|
| Form <b>886-A</b><br>(Rev. January 1994) | <b>EXPLANATIONS OF ITEMS</b> | Schedule number or exhibit    |
| Name of taxpayer                         | Tax Identification Number    | Year/Period ended<br><br>20XX |

Issue:

Whether \_\_\_\_\_ (hereinafter referred to as Organization) continues to qualify for exemption as an organization described within Internal Code Section 501(c)(10) given it does not operate for fraternal purposes, is not operated under the lodge system and does not devote its entire net earnings to exclusively charitable or fraternal purposes.

Facts:

The \_\_\_\_\_ received exemption November 19XX as a fraternal organization described in 501(c)(10) of the Code. According to its Charter of Incorporation, the organization was formed for the purpose of:

“ \_\_\_\_\_.”

“ \_\_\_\_\_.”

It also states that “ \_\_\_\_\_.”

The \_\_\_\_\_ is a membership organization comprised of two officers/board members. The Organization holds title to the property and handles the day to day operations of the facility on \_\_\_\_\_, ultimately insuring the building is usable by the \_\_\_\_\_. (\_\_\_\_\_). All social functions that take place at the facility are run by the \_\_\_\_\_. The Organization does not participate or organize these functions. According to the organizations financial documents provided during the audit the Organization is not performing any exempt activities. The organization does not devote all of its earnings to certain specified purpose (essentially religious, charitable, educational, scientific, literary, or fraternal purposes). The Organizations membership is comprised of members that are members of the \_\_\_\_\_. The Organization does not have its own separate membership from the \_\_\_\_\_. The membership is one in the same.

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The main source of income for the Organization is investment income. The Organization as of December 31, 20XX has \$ \_\_\_\_\_ in a \_\_\_\_\_ Investment account. The Organization receives no income from members. The Organization does not have a "parent" organization and retains earnings and income from year to year.

Based on the organizing documents provided the organization was unable to show that they are under a parent or have rules governed by a parent organization.

During the onsite visit with the Organization an initial interview was held where the history and activities were discussed. According to \_\_\_\_\_, Treasurer and \_\_\_\_\_, Board of Director member the Organization was created in order to prevent assets accumulated by the \_\_\_\_\_ from being taken by other third parties.

An affidavit received September 22, 20XX states that "while the \_\_\_\_\_ is an affiliate of \_\_\_\_\_, the \_\_\_\_\_ is a separate entity formed many years ago by members of the \_\_\_\_\_ in order to prevent assets accumulated by the \_\_\_\_\_ from being raided and taken by the \_\_\_\_\_ or other third party entities. The assets, including the deposit accounts of \_\_\_\_\_ are dedicated by its members to support the \_\_\_\_\_ which primarily treat \_\_\_\_\_; and the \_\_\_\_\_ makes both direct contributions/donations to the \_\_\_\_\_ and further donations to the \_\_\_\_\_ through the \_\_\_\_\_, \_\_\_\_\_. The \_\_\_\_\_ suffered the loss of part of its building from a fire occurring in June 20XX; and the damages from such fire have been mitigated so that the \_\_\_\_\_ intends to resume producing income from rental of such building."

According to the Organizations disbursement journal as illustrated below the net earnings are not exclusively devoted to charitable or fraternal purposes. Based on the disbursement journal the Organization made a \$ \_\_\_\_\_ donation to the \_\_\_\_\_ and all other expenses are for overhead. There is no indication that the net earnings are exclusively devoted to charitable or fraternal purposes.



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One of the requirements for tax exempt status for a fraternal organization is "operating under the lodge system." This means carrying on activities under a form of organization that is comprised of local branches chartered and generally supervised by a parent organization but are largely self-governing. The local branches, called lodges, councils or chapters, must be separately organized and self-governing but operated under the general control and supervision of the parent lodge and subject to its rules, laws and edicts.

The member of a fraternal society must have a common fraternal bond. In order to have a common fraternal bond; the members must have adopted the same or very similar calling, avocation, profession, or be working in unison to accomplish some worth objective or common cause.

Revenue Ruling 81-117, 1981-1 C.B. 346 states An organization that does not conduct any fraternal activities or operate under the lodge system, but does operate exclusively for the benefit of members of certain related domestic fraternal societies operating under the lodge system, does not qualify for exemption under section 501(c)(10) of the Code.

The reference in section 1.501(c)(10)-1(a) of the regulations to the description of fraternal beneficiary societies, found in section 501(c)(8) of the Code and the regulations thereunder, is directed at the fraternal and lodge system characteristics which organizations described in sections 501(c)(8) and 501(c)(10) have in common. The reference does not incorporate the subcategory of organizations which operate "for the exclusive benefit of the members of a fraternity itself operating under the lodge system" in its definition of a domestic fraternal organization under section 501(c)(10). Since that subcategory was added to a predecessor of section 501(c)(8) to cover the separately organized insurance branches of the fraternal beneficiary societies, it does not apply to section 501(c)(10) organizations which cannot provide insurance or other benefits to their members.

Furthermore, even though the subject organization is operating for the exclusive benefit of the members of certain related fraternities themselves operating under the lodge system, it does not operate under the lodge system or conduct any fraternal activities. An organization that does not conduct any fraternal activities or operate under the lodge system, but does operate exclusively for the benefit of the members of certain related domestic fraternal societies themselves operating under the lodge system, does not qualify for exemption from federal income tax under section 501(c)(10) of the Code.

**Taxpayer's Position:**

The taxpayer's position has not been determined at this time.

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**Government's Position:**

The \_\_\_\_\_ is not eligible for exemption under 501(c)(10) of the Code as a domestic fraternal society, order, or association. Section 501(c)(10) of the Code exempts from federal income tax domestic fraternal societies, orders, or associations, operating under the lodge system. The net earnings of which are devoted exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes, and which do not provide for the payment of life, sick, accident, or other benefits.

The Organization does not meet the requirements of an organization described in IRC section 501(c)(10). Members of the Organization do not have a common fraternal bond. The members do not adopt the same of very similar calling, avocation, profession, or are working in unison to accomplish any worthy objective or common cause. The Organization has not been operating for religious, charitable, scientific, literary, educational and fraternal purposes, nor has the Organization devoted its net earnings exclusively to religious, charitable, scientific, literary, educational and fraternal purposes.

The purpose of the organization is “

The scope of their stated mission is outside the allowed for fraternal society, order or association exempt under 501(c)(10) of the Code. As their organizing document does not meet the organizational test required for exemption under 501(c)(10) of the Code, the Organization does not qualify for exemption under this code section.

The term “fraternal” is used to describe an organization that is in the pursuit of a common object, calling or profession. These types of endeavors usually have a tendency to create a brotherly feeling among those who are thus engaged. The \_\_\_\_\_ does not have any fraternal activities. Rituals, ceremonies, and regalia are evidence of fraternal activities- you will not find any of there with the \_\_\_\_\_. The Organization does not have any rites or rituals when the meetings are held, or when new members are initiated. Also, the Organization does not have its own membership. Instead it considers \_\_\_\_\_ members as their members.

An organization is “operating under the lodge system” if it operates under the general control and supervision of a parent lodge, and is subject to the laws and edicts of the parent lodge. It is generally understood that such an organization holds regular meetings at a designated place, adopts a representative form of government, and performs its work according to a ritual.

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Revenue Ruling 81-117, 1981-1 C.B. 346 states An organization that does not conduct any fraternal activities or operate under the lodge system, but does operate exclusively for the benefit of members of certain related domestic fraternal societies operating under the lodge system, does not qualify for exemption under section 501(c)(10) of the Code. \_\_\_\_\_ does not conduct any fraternal activities or operate under the lodge system.

Conclusion:

In the case of \_\_\_\_\_, it is not entitled to exemption from Federal income tax as an organization described in section 501(c)(10) of the Code because:

1. You are not operated for fraternal purposes:
2. You are not operated under the lodge system:
3. You do not devote your entire net earnings to exclusively charitable or fraternal purposes.

Consequently, \_\_\_\_\_ exemption from Federal income tax is being revoked starting January 1, 20XX. Please file U.S. Corporation income tax return form 1120 for tax periods ending December 31, 20XX, as well as, subsequent years.