



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
TEGE EO Examinations Mail Stop 4920 DAL  
1100 Commerce St.  
Dallas, Texas 75242

Date: July 26, 2018

Number: **201843015**  
Release Date: 10/26/2018

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:  
(Phone)  
(Fax)

UIL: 501.03-00

CERTIFIED MAIL – RETURN RECEIPT

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

This is a final adverse determination regarding your exempt status under section 501(c)(8) of the Internal Revenue Code. You are no longer exempt under section 501(a) of the Code for the tax year ending December 31, 20XX.

The revocation of your exempt status was made for the following reason(s):

You are not operated under the lodge system. Also, you do not provide for the payment of life, sickness, accident, or other benefits to your members. Thus, you fail to meet the requirements of IRC 501(c)(8) which requires an organization to operate under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system as well as to provide for the payment of life, sickness, accident, or other benefits to its members in order to be exempt under IRC 501(c)(8).

You are required to file an income tax return on Form 1120 for the tax year ending December 31, 20XX with the appropriate Service Center in accordance with the instructions of the return.

Processing of income tax returns and assessments of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for

the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment by referring to the enclosed Publication 892. You may write to the courts at the following addresses:

United States Tax Court  
400 Second Street, N.W.  
Washington, D.C. 20217

U.S. Court of Federal Claims  
717 Madison Place, N.W.  
Washington, D.C. 20439

U.S. District Court for the District of Columbia  
333 Constitution Ave., N.W.  
Washington, D.C. 20001

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 [www.taxpayeradvocate.irs.gov](http://www.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 in the heading of this letter.

Sincerely,

Maria Hooke  
Director, EO Examinations

Enclosures:  
Publication 892



Department of the Treasury  
Internal Revenue Service  
Tax Exempt and Government Entities  
Exempt Organizations Examinations

Date: March 8, 2018

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact:

Employee ID:

Telephone:

Fax:

Manager's Contact Information:

Employee ID:

Telephone:

Response Due Date:

**CERTIFIED MAIL – Return Receipt Requested**

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

**Why you're receiving this letter**

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(8).

**If you agree**

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(8) for the periods above.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

**If you disagree**

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to

sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

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

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final adverse determination letter.

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

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 [www.taxpayeradvocate.irs.gov](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

**For additional information**

You can get any of the forms and publications mentioned in this letter by visiting our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676).

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,



Maria Hooke  
Director, Exempt Organizations  
Examinations

Enclosures:  
Form 886-A  
Form 6018  
Publication 3498  
Publication 892

Form <b>886-A</b> (May 2017)	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit 1 issued 03/08/18
Name of taxpayer	Tax Identification Number ( <i>last 4 digits</i> )	Year/Period ended  December 31, 20XX

ISSUE: Does the organization continue to qualify for exemption under section 501(c)(8) of the Internal Revenue Code ("IRC")?

**FACTS:**

Zero dollars are reported in Part I, line 14 of Form 990 (Benefits paid to or for members). Likewise, no amount is reported on line 4 of Part IX (Benefits paid to or for members.)

Part III of the 20XX form 990 indicates that the org did not undertake any significant program services during the year which were not listed for the prior year and that the org did not cease conducting or make significant changes in how it conducts any program services.

Part VI, Section C (disclosure), item 4 replies to the requirement that the org make its form 1024, 990 and 990-T available to the public. The question asks how they are made available in reply to which the org checked the option for "upon request". Schedule O expands on this by entering the text: "No documents available to the public."

In reply to my request for comments on the Schedule O statement, the POA referred to the "upon request" reply. The reply appears to be missing some text.

Four classes of Members are reported as follows on the form 1024 – Honorary Social, Meritorious and Regular. Regular members with birth or descent. Meritorious members are nominated for distinguished service, exemplary conduct, community achievements and exemplary moral/social achievements. Honorary members are "past members who have had a significant contribution to the lodge and the community". "Social members participate in lodge activities have voting rights and may be elected to office. This class is open to the public, but may not fall into any membership category listed above."

The organization has loans owed to members for renovations. The org claims that these loans were disclosed on the 20XX Form 990 Schedule L. The org also discloses their conflict of interest policy prohibiting personal benefit. Generally, if after due diligence no independent offers are acceptable, then the Board of Directors decides if the offer is fair to, and in the best interests of

Loans and other payables to current officers, directors, trustees, key employees, highest compensated employee, and disqualified persons were reported in Part X, line 22 of the 20XX form 990 as \$0. The prior year end reflected a balance for this line of \$0. The original amount of the loan is disclosed on Schedule L of the 20XX form 990 to be \$0.

Information Document Request – Form 4564 was sent to the org and specifically asked if the organization receives contributions which are deductible by donors. The POA replied that "The

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is a member supported organization however donors do not receive tax deductible contributions for amounts given.”

It is noted that as of the Aug 4, 20XX letter replying to a request for clarification of exempt status, the right to deductibility of donations was affirmed under Section 501(c)(3), and classification as a public charity approved under Section 509(a)(1) and 170(b)(1)(a)(vi).

The organization reports in Part V of the 20XX form 990 that it did not solicit any contributions that were not taxable as charitable contributions.

An inspection of the admin file disclosed that the org discloses in Part I is selects option “f” to indicate that it was applying on Form 1024 for exemption as a Section 501(c)(8) organization Fraternal beneficiary societies, etc., providing life, sick, accident or other benefits. In Schedule E of the same Form 1024, the org replies to question 2a that it does not operate under the lodge system. In reply to question 2b, replies that they do or will operate for the exclusive benefit of the members of an organization operating under a lodge system. Question 4 of this part asks: “Is the organization a parent or a ?” The answer provided to this question is “No”.

It is noted that in the cover letter for form 1024, dated November 4, 20XX, , is twice referred to by the POA as a ministry.

Articles for amendment of the club name were filed on October 13, 20XX. The name changed from , to the new name .

Form 1024 also contains the following question/answer for Part II, question 4:  
If the organization is the outgrowth or continuation of any form of predecessor, state the name of each predecessor, the period during which it was in existence, and the reasons for its termination. Submit copies of all papers by which any transfer of assets was effected.  
The reply was: “The organization has always been a separate legal entity. However, it fell under the group exemption of the National Organization. At one time, it had filed its own exemption, which was approved. However, it is now filing paperwork so that it may have its own 501(c)(8) exemption apart from the group exemption of the National Organization.”

In Part IV of the Form 1024, replied to a section that did not pertain to it, but rather to orgs which are exempt under Sections 501(c)(9) and (c)(17) who are requesting additional time to secure tax-exemption. In their response, however, they indicate that they should be eligible to avail themselves of additional time to file.

Letter 948, signed by Director of Exempt Organizations Tamara Ripperda and dated May 1, 20XX granted tax exemption to the organization under Section 501(c)(8).

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The addendum to the May 1 letter begins with the statement: "Our records indicate that you were previously tax-exempt as a subordinate under group exemption number 3610. Because you applied for and have been granted your own individual tax-exempt status, you no longer rely on your affiliation with a parent organization for recognition of your tax-exemption."

The addendum continues with a second and final provision: "If, in the future, you choose to become a subordinate under a group ruling, you will lose your individual recognition of tax-exempt status. Moreover, if you become a subordinate under a group ruling and your parent organization loses its tax-exempt status, you also will lose your exempt status. To reestablish your individual tax-exemption after rejoining a group exemption, you will be required to reapply and pay the appropriate user fee."

The Information Document Request ("IDR"), dated January 11, 20XX, asked the organization to identify the types of benefits provided to membership including, if applicable, the payment of life, sickness, accident or other insurance benefits to the members or their dependents.

In reply to this question, the org stated in their letter dated Feb 2, 20XX, that "As with the , members did not receive any of the benefits that you have listed in your letter." However, they did "receive benefits as a social club" which included various events, organizational activities, and community programs.

The Feb 2, 20XX letter further states that the organization, once was a component unit of the until, on November 4, 20XX, the broke away from the and completed the 1024 application as a stand-alone organization for recognition as a nonprofit entity.

The signage shown in the of the reads: "Social Club of ". The article implies that the establishment is open to the public with the statement: "... when the local group ( ), whose Monday pasta offerings beckon passers-by ... " No employees or employee compensation is reported on the 20XX form 990, despite the labor involved in a weekly pasta dinner.

It is reported by (attorney for the Statewide Lodge suing the local group) that funds have been raised by the group under the auspices of the , described on its website as "the largest and oldest national organization for men and women of heritage in the United States." The national group, which began as a mutual aid society for early immigrants, funds causes such as educational programs, cultural preservation, medical research, disaster relief and veterans' needs.

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The local group which refers to itself as the \_\_\_\_\_ on its website —  
 lists among its charitable works food drives for the \_\_\_\_\_ and  
 donations to \_\_\_\_\_ and its work with \_\_\_\_\_.

Even so, said \_\_\_\_\_ (the lawyer suing \_\_\_\_\_ on behalf of the State  
 \_\_\_\_\_), because the \_\_\_\_\_ group opted to leave the national organization, its money and  
 property rightly should be administered by the \_\_\_\_\_ law states that when members  
 cut ties with and hierarchal body, such as a church, "they take nothing with them except for their  
 membership," he said.

**LAW:**

To be exempt under IRC section 501(c)(8), a fraternal beneficiary society, order, or association must meet the following requirements:

- 1) It must have a fraternal purpose
- 2) It must operate under the lodge system or for the exclusive benefit of the members of a fraternal organization itself operating under the lodge system. Operating under the lodge system requires, at a minimum, two active entities: (i) a parent organization; and (ii) a subordinate chartered by the parent and largely self-governing
- 3) It must provide for the payment of life, sickness, accident, or other benefits to the members of such society, order, or association or their dependents
- 4) An organization that provides benefits to some, but not all, of its members may qualify for exemption so long as most of the members are eligible for benefits, and criteria for excluding certain members are reasonable.

Perhaps the leading judicial pronouncement of what constitutes a "fraternal beneficiary society" is in this extract from *National Union v. Marlow* 374 F. 775, 778 (1896): \*\*\*a fraternal-beneficial society\*\*\* would be one whose members have adopted the same, or a very similar calling, avocation, or profession, or who are working in union to accomplish some worthy object, and who for that reason have banded themselves together as an association or society to aid and assist one another, and to promote the common cause. The term "fraternal" can properly be applied to such an association, for the reason that the pursuit of a common object, calling, or profession usually has a tendency to create a brotherly feeling among those who are thus engaged. \*\*\* Many of these associations make a practice of assisting their sick and disabled members, and of extending substantial aid to the families of deceased members. Their work is at the same time of a beneficial and fraternal character, because they aim to improve the condition of a class of persons who are engaged in a common pursuit, and to unite them by a stronger bond of sympathy and interest.\*\*\*

The Regulations under IRC 501(c)(8) states, in part, that "operating under the lodge system" means carrying on its activities under a form of organization that comprises local branches that



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are chartered by a parent organization and that are largely self-governing, called lodges, chapters, or the like. Rev. Rul. 55-495, 1955-2 C.B. 259, holds that an organization which does not have a parent organization or subordinate branches does not qualify under IRC 501(c)(8) because it does not operate under the lodge system.

Revenue Ruling 55-495 deals with an organization which did provide benefits to members but did not operate under the lodge system, or for the exclusive benefit of the members of an organization so operating.

An entity seeking exemption under IRC 501(c)(8) must have an established system for the payment of life, sick, accident, or other benefits to its members or their dependents.

It is not essential that every member of a fraternal beneficiary society be covered by its program of benefits for the organization to qualify as exempt under IRC 501(c)(8). Rev. Rul. 64-194, 1964-2 C.B. 149, provides that a fraternal association having two classes of members (beneficial and social) qualifies for exemption under IRC 501(c)(8) even though its social members are not covered by its benefit program. Beneficial membership is available only to a member who joins prior to his/her 50th birthday, but social membership is available to older persons.

An exempt fraternal organization must operate under the lodge system and provide for an established system of benefit payments to its members and their dependents. It is not necessary that either of these features predominate. (I.T. 1516 1-2 C.B. 180 (1922).) However, both features must be substantially present; neither may be a sham.

**GOVERNMENT POSITION:** The organization fails to qualify for exemption under multiple provisions: 1) The org does not provide for the payment of any financial benefits, as required for an org that is tax exempt under Section 501(c)(8). 2) The org does not operate under the Lodge system, also required. 3) Members are united by Social purpose of celebrating a common heritage, but not for the payment of benefits for accidents. 4) The majority of members do not qualify for benefits as benefits are provided to none of the members. The method of excluding members is therefore considered unreasonable.

**TAXPAYER POSITION:** The government position was discussed with POA , CPA on 03/08/XX. The POA indicated that the organization may agree with the revocation of exempt status, but that in the future would file with the IRS Form 1024 with another possible sub section.

**CONCLUSION:** The org's tax exemption should be revoked & form 990's converted to corporation tax forms 1120 effective as of January 1, 20XX. Any deductions taken by donors will be disallowed from the effective date.