



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

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Release Number: 201844011  
Release Date: 11/2/2018  
UIL Code: 501.03-00

Date: July 5, 2018

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:  
(Phone)  
(Fax)

**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 June 30, 20XX.

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

You are not operated under the lodge system. 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 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 June 30, 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:  
February 12, 2018  
Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Manager's Name/ID Number:

Manager's Contact Number:

Response due date:

**Certified Mail – Return Receipt Requested**

Dear :

**Why you are receiving this letter**

We propose to revoke your status as an organization described in section 501(c)(8) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

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

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(8).

**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 revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

**Effect of revocation status**

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

**What you need to do if you disagree with the proposed revocation**

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS 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.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, 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. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate assistance. 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 person 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 Liene  
Director, EO Examinations

Enclosures:  
Report of Examination  
Form 6018  
Publication 892  
Publication 3498

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

**ISSUE**

Whether \_\_\_\_\_ should continue to qualify for exemption as an organization described in the Internal Revenue Code (IRC) section 501(c)(8).

**FACTS**

\_\_\_\_\_ was chartered under the laws of Bucks County, \_\_\_\_\_ on April 29, 15XX for the purpose of the following:

“Maintaining a society for the promotion and cultivation of the science of vocal music, and to aid and assist is members in case of sickness and distress and for the promotion of social intercourse and enjoyment among each other.”

The organization was incorporated under the laws of the state of \_\_\_\_\_ as a Charitable organization on May 4, 18XX for the above stated purpose.

The organization received its determination letter on August 13, 20XX.

The organization is an independent organization and has no subordinates. The organization is not operated under the lodge system.

The organization’s receipts are derived from membership dues and operation of a social club for its members, the receipts from the club are substantial and are derived from bar sales and various amusement devices.

**LAW**

Section 501(c) of the code describes certain organizations exempt from federal income tax under section 501(a) and as pertinent here reads, in part as follows:

- (4) Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.
- (7) Clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.
- (8) Fraternal beneficiary societies, orders, or associations
  - (A) Operate under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system and
  - (B) Provide for the payment of life, sick, accident or other benefits to the members of such society, order or association and their dependents.

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>		Schedule number or exhibit
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**Internal Revenue Regulation 1.501(c)(8)-1 Fraternal Beneficiary Societies**

A fraternal beneficiary society is exempt from tax only if operated under the "lodge system" or for the exclusive benefit of the members so operating. "operating under the lodge system" means carrying on its activities under a form of organization that comprises local branches, chartered by a parent organization and largely self-governing, called lodges, chapters, or the like. In order to be exempt, it is also necessary that the society have an established system for the payment to its members or their dependents of life, sick, accident, or other benefits.

Revenue Ruling 63-190, 1963-2 C.B. 212 states in part:

A non-profit organization (not operated under the lodge system), which maintains a social club for member and also provides sick and death benefits for members and their beneficiaries, does not qualify for exemption from Federal Income tax as either a social club under section 501(c)(7), a civic league under section 501(c)(4), or a fraternal beneficiary society under section 501(c)(8) of the Internal Revenue Code of 1954.

Operating under the lodge system, as contemplated in section 501(c)(8) of the Code, means carrying out activities under a form of organization that comprises local branches chartered by a parent organization and largely self-governing, called lodges, chapters, or the like.

The organization maintains a social club for its members as described in section 501(c)(7) and, in addition, pays sick and death payments to its members. The payment of sick and death benefits is not a function of a social club. *Allied Trades Club, Inc. v. Commissioner*, 23 T.C. 1017 (1955), affirmed 228 Fed. (2d) 906 (1956).

Organizations described in section 501(c)(4) of the Code comprise those not organized for profit but operated exclusively for purposes beneficial to the community as a whole, and in general, include organizations engaged in promoting the welfare of mankind. Section 1.501(c)(4) of the Income Tax Regulations provides that an organization is not operated primarily for the promotion of social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of its members.

There is no provision in the Code for exemption from income tax of an organization having a combination of functions such as the one herein.

A case in point is *Allgemeiner Arbeiter Verin v. Commissioner*, 25 T.C. 471 (1955), affirmed Fed. (2d) 605 (1956). In that case the tax court of the United States had before it the question of exemption of an organization which was formed to provide mutual assistance of sickness or death of its members, but which expanded its scope to include intensive social activities.

The court held that where one activity carried on by the organization prevents it from satisfying the requirements of section 101(9) of the Internal Revenue Code of 1939 and section 101(10) of the 1939 Code, the petitioner is not an exempt organization, notwithstanding that an organization carry on its sole activity either of the two principal functions carried on by the petitioner might qualify for an exemption under one of the two foregoing provisions.

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>	Schedule number or exhibit
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		20XX

The court stated there is no statutory authority, whatever the equities, permitting the exemption of an organization, however worthy, which cannot fit itself within one of the various subdivisions of section 101 of the 1939 (now section 501 of the 1954 Code).

Operating under the lodge system as contemplated in section 501(c)(8) of the Code, means carrying on activities under a form of organization that comprises local branches charter by a parent organization and largely self-governing, called lodges, chapters, or the like. Section 1.501(c)(8)-1(a) of the regulations. is not operated under the lodge system.

In view of the foregoing, the organization does not qualify for exemptions from federal income tax as organization described in section 501(c)(4), (7), or (8) of the Code.

**TAXPAYER'S POSITION**

The organization has not declared a position.

**GOVERNMENT'S POSITION AND CONCLUSION**

The organization is not operated under a lodge system, thus it fails to meet the requirements of section 501(c)(8) in which it must operate under the lodge system or for the benefit of the members of a fraternity itself operating under the lodge system.

**If you agree to this conclusion please sign the attached Forms.**

**If you disagree please submit a statement of your position.**