

# [Exemptions]

[Federal income tax exempt status issued by IRS &/or as declared by Taxpayers]

## 26 U.S. Code § 501 (c)(4)



### 501(c)(4) — Civic Leagues, Social Welfare Organizations, and Local Associations of Employees



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#### Part 7. Rulings and Agreements

#### Chapter 25. Exempt Organizations Determinations Manual

#### Section 4. Civic Leagues, Social Welfare Organizations and Local Associations of Employees

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##### 7.25.4 Civic Leagues, Social Welfare Organizations and Local Associations of Employees

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#### **7.25.4.1 (02-09-1999)**

##### **Overview**

1. This section discusses civic leagues, social welfare organizations and local associations of employees for which an exemption from tax is provided under IRC 501(c)(4).
2. IRC 501(c)(4) provides for exemption for two types of organizations:
  - A. social welfare organizations
  - B. local associations of employees
3. Effective September 14, 1995, organizations exempt under IRC 501(c)(4) may not allow any part of their net earnings to inure to the benefit of any private shareholder or individual. Further, insiders and organization managers may be subject to the excise tax imposed by IRC 4958 if assets or services are provided to insiders for less than fair market value.

#### **7.25.4.2 (02-09-1999)**

##### **Community Benefit v. Private Benefit**

1. Organizations that promote social welfare should primarily promote the common good and general welfare of the people of the community as a whole. An organization that primarily benefits a private group of citizens cannot qualify for exemption.
2. A membership organization is not automatically precluded from exempt status under IRC 501(c)(4). An organization that primarily benefits the community as a whole rather than just the membership may qualify. In exceptional cases, an organization whose services are made available solely to its members may qualify. In such cases, it must be clearly established that making the service available to the membership benefits the community as a whole.

#### **7.25.4.2.1 (02-09-1999)**

##### **Published Precedents Illustrating Community v. Private Benefit**

1. Financial counseling—A nonprofit organization formed to advise, counsel, and assist individuals in solving their financial difficulties by budgeting their income and expenses and effecting an orderly program for the payment of their obligations is entitled to exemption from Federal income tax as a social welfare organization described in IRC 501(c)(4). See Rev. Rul. 65-299, 1965-2 C.B. 165.
2. Community water supply—A nonprofit organization formed for the purpose of establishing and maintaining a system for storage and distribution of water in order to increase underground water levels of a community is entitled to exemption from tax under IRC 501(c)(4) as an organization operated exclusively for the promotion of social welfare. See Rev Rul. 66-148, 1966-1 C.B. 143.
3. Rifle range; safe handling of weapons—A nonprofit organization may qualify for exemption from Federal income tax under IRC 501(c)(4) where it provides a community with supervised facilities for rifle, pistol,

and shotgun practice and instructions in the safe handling and proper care of weapons. See Rev. Rul. 66-273, 1966-2 C.B. 222.

4. Organized sports—An organization that stimulates the interest of youth in the community in organized sports by furnishing virtually free admission to youths and encouraging their attendance at sporting events may qualify under IRC 501(c)(4). See Rev. Rul. 68-118, 1968-1 C.B. 261. See also Rev. Rul. 69-384, 1969-2 C.B. 122, and Rev. Rul. 70-9, 1970-1 C.B. 126
5. Festival—A nonprofit organization that conducts an annual festival centered around regional customs and traditions may qualify for exemption under IRC 501(c)(4). The organization provides the community with recreation and provides a means for citizens to express their interest in the community's history, customs, and traditions. See Rev. Rul. 68-224, 1968-1 C.B. 262.
6. Loans to businesses to alleviate unemployment—A nonprofit organization created to make loans to businesses as an inducement to locate in an economically depressed area in order to alleviate a community's unemployment may be exempt under IRC 501(c)(4). See Rev. Rul. 67-294, 1967-2 C.B. 193.
7. P.T.A. sponsored corporation; student insurance reviews—A nonprofit corporation whose sole purpose is cooperating with the parent-teacher association of a local school district in its activities, by reviewing the proposals of and designating the insurance company allowed to solicit accident insurance from the students, teachers, and other employees of the school district qualifies under IRC 501(c)(4). See Rev. Rul. 61-153, 1961-2 C.B. 114.
8. Junior chamber of commerce; community welfare—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 from Federal income tax as an organization described in IRC 501(c)(4). Its various programs, such as activities on behalf of youth, community benefit projects, and community leadership training, promote the common good and general welfare of the people of the community. Ordinary chambers of commerce, which are organized to promote the business interests of a community, instead generally qualify for exemption under IRC 501(c)(6). See Rev. Rul. 65-195, 1965-2 C.B. 164.
9. Stadium for school district—A corporation formed to provide a school district with a stadium is exempt as an organization operated for the promotion of social welfare. See Rev. Rul. 57-493, 1957-2 C.B. 314.
10. Public safety and community services—A nonprofit organization that carried on activities in the general areas of public safety and crime prevention, housing and community development, recreation, and community services was held exempt under IRC 501(c)(4). Membership in the organization was open to any interested person or business enterprise in the community and the benefits of its activities were extended to both members and nonmembers on equal terms. The holding of the above revenue ruling was based on the conclusion that by carrying on its activities, including contracting for security patrols designed to increase public safety and reduce crime in the community, the organization was promoting the common good and general welfare of the people of the community. See Rev. Rul. 75-386, 1975-2 C.B. 211. Compare Rev. Rul. 77-273, 1977-2 C.B. 194, which is discussed in IRM 7.25.4.10.1(11).
11. Bus transportation during rush hours for suburban community—The Service concluded that an organization formed by residents of a suburban community to provide bus transportation during rush hours between the community and the major employment center in a metropolitan area is exempt under IRC 501(c)(4). Regular bus service was inadequate during rush hours. Because revenue from fares was not sufficient to meet expenses, the organization sought and received financial assistance from different governmental units to enable it to continue operation of the bus service. The organization was supervised by an uncompensated board of directors elected by community residents, and its meetings were publicized in advance and were open to all residents. These factors indicated that the organization was not carrying on a business with the general public in a manner similar to organizations operated for profit, but instead was promoting social welfare within the meaning of Reg. 1.501(c)(4)-1(a)(2). See Rev. Rul. 78-69, 1978-1 C.B. 156.

12. Airport serving rural needs—An organization that operates an airport in a rural area that has no other airport, and which is essential to the economy of the area, is exempt under IRC 501(c)(4). The use of volunteer services and the receipt of government grants, as well as overall supervision and control by a municipality, were factors that led the Service to conclude that the organization was not carrying on a business with the general public in a manner similar to organizations operated for profit. See Rev. Rul. 78-429, 1978-2 C.B. 178.
13. Television antenna services—An organization that provides antenna service only to its members to enable them to receive television is not exempt. See Rev. Rul. 54-394, 1954-2 C.B. 131. However, an antenna service that provides signals to any television receiver in the community is exempt since it benefits the community as a whole rather than just the members. See Rev. Rul. 62-167, 1962-2 C.B. 142.
14. Grocery cooperative—An organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis is not exempt as a social welfare organization. See Rev. Rul. 73-349, 1973-2 C.B. 179.
15. Parking services—An organization established by merchants which operates a public parking facility that provides parking for the merchants' customers at free or reduced rates does not qualify because it primarily serves the private interests of the merchants and is a business. See Rev. Rul. 78-86, 1978-1 C.B. 152. On the other hand, an organization whose membership is open to the community and provides free parking to all would qualify. See Rev. Rul. 81-116, 1981-1 C.B. 333. The Service does not follow the decision in Monterey Public Parking Corporation v. United States, 481 F. 2d 175 (9th Cir. 1973).
16. Port area spillage control—An organization that tries to prevent liquid spills, primarily of oil, and contain and clean up spills within a city port area is exempt under IRC 501(c)(4) if its services are equally available to members and nonmembers at the same costs. See Rev. Rul. 79-316, 1979-2 C.B. 228.
17. Rehabilitation of unemployed—A corporation organized for the purpose of rehabilitating and placing unemployed persons over a stated age may be exempt as an organization operated exclusively for the promotion of social welfare. Although substantial private benefit to the unemployed individuals exists, the community benefit found in employing those individuals is dominant. See Rev. Rul. 57-297, 1957-2 C.B. 307. Distinguished by Rev. Rul. 66-257, 1966-2 C.B. 212.
18. Memorial association; funeral information and arrangements—A memorial association organized to study and develop methods of achieving simplicity and dignity in funeral and memorial services; educate and inform its members as well as the public as to the results of such study; and maintain a registry for the wishes of its members in regard to arrangements following death, is entitled to exemption from Federal income tax as a social welfare organization described in IRC 501(c)(4). The organization serves a social welfare purpose through education of the public and providing a useful service to the community on a noncommercial basis. See Rev. Rul. 64-313, 1964-2 C.B. 146.
19. Mutual benefit societies—Organizations that provide life, sickness, and accident benefits for their members do not qualify under IRC 501(c)(4) because their activities primarily benefit their members. See Rev. Rul. 75-199, 1975-1 C.B. 160, which modified Rev. Rul. 55-495, 1955-2 C.B. 259. See also, N.Y. State Assn. of Real Est. Bds. Group Ins. Fund v. Commissioner, 54 T.C. 1325 (1970). Police and fire relief associations are discussed at IRM 7.25.4.11.
20. Trade association—In American Women Buyers Club, Inc. v. Commissioner, 238 F.2d 526 (2nd Cir. 1964), the court affirmed denial of exemption to a membership corporation of female ready-to-wear buyers organized to promote the general good and welfare of members in the trade, encourage friendly relations, and give aid to members in distress. Membership, even within the trade, was restrictive as approximately 15% of the applicants were turned down. The services provided by the club (such as employment facilities, information about sources of supply, lectures, dinners, installations, publications, and sick and death benefits) were all primarily, if not exclusively, for the club membership.

21. Street restoration for members—In Contracting Plumbers Cooperative Restoration Corp. v. United States, 488 F. 2d 684 (2nd Cir. 1973), cert. denied, 419 U.S. 827, an organization whose purpose was to ensure the efficient repair of "cuts" in city streets which resulted from its members' plumbing activities did not qualify for exemption under IRC 501(c)(4). The Court concluded that there were several factors which evidenced the existence of a substantial nonexempt purpose. The factors included, but were not limited to, the members' substantial business interest in the organization's formation and the fact that each member of the cooperative enjoyed economic benefits precisely to the extent they used and paid for restoration services.
22. Art exhibit sponsorship—A nonprofit organization whose purpose is to develop and encourage interest in painting, sculpture, and other art forms by conducting, in a noncommercial manner, a community art show qualifies for exemption as an organization operated exclusively for the promotion of social welfare under IRC 501(c)(4). See Rev. Rul. 78-131, 1978-1 C.B. 156.
23. Personal service cooperative —A community cooperative organization formed to facilitate the exchange of personal services among members is operating primarily for the private benefit of its members and is not exempt from tax as a social welfare organization under IRC 501(c)(4). See Rev. Rul. 78-1 32, 1978-1 C.B. 157.
24. Tenants association—An organization formed to promote the legal rights of tenants in a community by publishing a newsletter, testifying before administrative and legislative bodies and occasionally initiating litigation qualifies under IRC 501(c)(4). See Rev. Rul. 80-206, 1980-2 C.B. 185. However, an organization made up of tenants in an apartment complex which represented those tenants in negotiations with apartment management would not qualify. See Rev. Rul. 73-306, 1973-2 C.B. 185.
25. Beautification of public areas—A nonprofit organization with membership limited to the residents and business operators within a city block and formed to preserve and beautify the public areas in the block, thereby benefiting the community as a whole as well as enhancing the value of its members' property rights, will not qualify for exemption under IRC 501(c)(3) but may qualify under IRC 501(c)(4). See Rev. Rul. 75-286, 1975-2 C.B. 210. Rev. Rul. 68-14 distinguished.
26. Recreational facility; restricted use—The Service will not follow the decision in Eden Hall Farm v. United States, 389 F. Supp. 858 (W.D. PA 1975), which held that an organization providing recreational facilities to the employees of selected corporations qualifies for exemption as a social welfare organization described in IRC 501(c)(4). See Rev. Rul. 80-205, 1980-2 C.B. 184.
27. Employment taxes; collection and payment—An organization established by a collective bargaining agreement between an association of manufacturers and a labor union to collect Federal and State employment taxes which the manufacturers are required to deduct from the wages of their employees who are members of the union, and pay over the amounts so collected to the appropriate tax authorities does not qualify for exemption under IRC 501(c)(4), 501(c)(5), 501(c)(6) or 501(c)(9). See Rev. Rul. 66-354, 1966-2 C.B. 207.

#### **7.25.4.3 (02-09-1999)**

##### **Homeowners' Associations**

1. A homeowners' association is an organization that consists of all lot owners in a certain development and that enforces covenants for preserving the architecture and appearance of the development. Generally, it also owns and maintains certain green areas and sidewalks. To be described in IRC 501(c)(4) a homeowners' association must primarily serve the community rather than the private interests of its members. Rev. Rul. 74-99, 1974-1 C.B. 131 sets forth the following requirements to ensure that community benefit is primary.
  - A. The organization must serve a "community": an area bearing a reasonably recognizable relationship to an area ordinarily identified as a governmental subdivision or unit thereof,

- B. It does not perform exterior maintenance on private dwellings, and
  - C. Most of the facilities maintained are open to the general public rather than only to the members.
2. An organization representing a small number of homeowners may qualify if the facilities it maintains are open to the public at large rather than only to its members. An exempt homeowners association can form a separate organization to hold restricted facilities. The separate organization could qualify under IRC 501(c)(7). See Rev. Rul. 80-63, 1980-1 C.B. 116.
  3. An organization that represented a large area and that restricted the use of its facilities to its members did not qualify. Flat Top Lake Association v. United States, 868 F.2d 108 (4th Cir. 1989).
  4. IRC 528, as added by section 2101 of the Tax Reform Act of 1976, P.L. 94-455, provides an elective exemption for certain homeowners associations that are described in IRC 528(c). This Code provision was enacted because many homeowners associations found it difficult to meet the requirements for exemption under IRC 501(c)(4).
  5. Rev. Rul. 72-102, 1972-1 C.B. 149, was substantially modified by Rev. Rul. 74-99 and should only be read in conjunction with the later ruling.
  6. A condominium owner's association that maintains areas owned by the unit holders does not qualify for exemption under IRC 501(c)(4) since such an organization primarily serves private interests. See Rev. Rul. 74-17, 1974-1 C.B. 130.

#### **7.25.4.4 (02-09-1999)**

##### **Veterans' Organizations**

1. An organization composed of veterans of the United States Armed Forces may, if it meets the applicable requirements, qualify under either IRC 501(c)(4) or IRC 501(c)(19). An organization that does not qualify under IRC 501(c)(19) is not precluded from qualifying under IRC 501(c)(4).
2. If the activities of a veterans' post primarily serve the interests of its members or constitute the operation of a business, the organization cannot qualify under IRC 501(c)(4). See Rev. Rul. 68-46, 1968-1 C.B. 260.
3. However, an organization that cannot meet the membership percentage tests of IRC 501(c)(19) but is primarily engaged in activities that promote social welfare, such as providing assistance to needy and disabled veterans and/or promoting patriotism, can qualify for exemption.
4. Contributions to veterans organizations made up of at least 90% war veterans may be deductible to the donor. See IRM 19.6 of this Handbook for a discussion of the standards for deductibility. IRM 7.25.19.6.
5. A subsidiary of a veterans organization which operates a social facility on behalf of the organization does not qualify under IRC 501(c)(4) but may qualify under IRC 501(c)(7). See Rev. Rul. 66-150, 1966-1 C.B. 147.

#### **7.25.4.5 (02-09-1999)**

##### **Organizations Supported by Government**

1. Various Federal and State programs have been developed over the years to relieve or improve social and economic conditions in communities throughout the country. These programs include housing for handicapped and low-income groups, area redevelopment for the relief of unemployment, and promotion of economic opportunity. For the most part, the programs promote social welfare. For example, the promotion of social welfare includes efforts to furnish housing for low-income groups where there is a need for such housing (Rev. Rul. 55-439, 1955-2 C.B. 257; Garden Homes Company v. Commissioner, 64 F.2d 593 (7th Cir. 1932)); to relieve unemployment by area redevelopment (Rev. Rul. 64-187 1964-1 (Part 1) C.B. 187); to rehabilitate the elderly unemployed (Rev. Rul. 57-297, 1957-2 C.B. 307); and to make loans to business

entities to induce them to locate in an economically depressed area in order to alleviate unemployment (Rev. Rul. 67-294, 1967-2 C.B. 193).

2. An organization will not necessarily qualify for exemption from tax merely because it is eligible for assistance from, or participates in, a Federal or State program. In some instances these programs provide assistance to organizations that are not described in any of the exempting provisions of the Code. For example, section 202 of the Housing Act of 1959 (12 U.S.C. Sec. 1701q), authorizes the Housing and Home Financing Agency to make loans to consumer cooperatives. A cooperative housing corporation is not exempt as a social welfare organization since it is an economic and private undertaking for the benefit of its members. (*Commissioner v. Lake Forest, Inc.*, 305 F.2d 814 (4th Cir. 1962).) Another example is found in the New York State Housing Law of 1926. (N.Y. Sess. Laws 1926, ch. 823.) The purpose of the law was to relieve unsatisfactory housing conditions of persons of low incomes. To accomplish this purpose, the law authorized the formation of limited dividend stock corporations that would construct and operate rental dwellings under the supervision of a state agency. Corporations organized under this law are not exempt from Federal income tax because they do not meet the "not-organized-for-profit" requirement of IRC 501(c)(4). They are organized in part for profit because they may pay dividends, even though limited in amount, to their stockholders. *Amalgamated Housing Corporation v. Commissioner*, 37 BTA 817 (1938), affirmed per curiam, 108, F.2d 1010 (2nd Cir. 1940).

#### **7.25.4.6 (02-09-1999)**

##### **Exemption Under IRC 501(c)(4) v. Exemption Under IRC 501(c)(3)**

1. Reg. 1.501(c)(3)-1(d)(2) includes the promotion of social welfare as a charitable purpose within the meaning of IRC 501(c)(4) v. IRC 501(c)(3). Therefore, there is considerable overlap between IRC 501(c)(4) and IRC 501(c)(3). Many organizations could qualify for exempt status under either Code section.
2. Organizations exempt under IRC 501(c)(4) are generally allowed greater latitude than that allowed to organizations exempt under IRC 501(c)(3). There is no organizational test and there is no deadline on applying for exemption. Organizations exempt under IRC 501(c)(4) may engage in germane action organization activities described in Reg. 1.501-1(c)(3) other than intervention in a political campaign, without the restrictions imposed on IRC 501(c)(3) organizations. Since the test for exemption under IRC 501(c)(4) is one of primary activities, an organization exempt under IRC 501(c)(4) may engage in substantial non-exempt activities.
3. Organizations that are not exempt under IRC 501(c)(3) for a period of time because of failure to file for recognition of exemption timely under IRC 508(a) may qualify as exempt under IRC 501(c)(4) for that period. See Rev. Rul. 80-108, 1980-1 C.B. 119, and Rev. Rul. 81-177, 1981-2 C.B. 132.
4. An organization is not operated for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations operated for profit. Therefore, an organization operating a bingo game could qualify for exemption under IRC 501(c)(3) if its primary purpose is to raise funds for charity but would not qualify under IRC 501(c)(4) because its primary activity is the operation of a business.
5. Contributions to organizations exempt under IRC 501(c)(4) are generally not deductible by donors. Exceptions to this rule are found in the case of fire and rescue squads (See Rev. Rul. 74-361, 1974-2 C.B. 159) and certain war veterans organizations.

#### **7.25.4.7 (02-08-1999)**

##### **Intervention in Political Campaigns**

1. The promotion of social welfare does not include participation in political campaigns on behalf of or in opposition to any political candidate. Reg. 1.501(c)(4)-1(a)(2)(ii). An exempt IRC 501(c)(4) organization may intervene in political campaigns as long as its primary activity is the promotion of social welfare. IRC

501(c)(4) organizations are subject to the tax imposed by IRC 527 on any expenditure for a political activity that comes within the meaning of IRC 527(e)(2). See Rev. Rul. 81-95, 1981-1 C.B. 332.

2. The rules determining what constitutes intervention in a political campaign for an IRC 501(c)(4) organization are the same as those governing IRC 501(c)(3) organizations.
3. An organization whose exempt status under IRC 501(c)(3) is revoked for intervention in a political campaign may not thereafter qualify for exemption under IRC 501(c)(4). See IRC 504.

#### **7.25.4.8 (02-09-1999)**

##### **Legislative Activities**

1. As long as the legislation that an organization attempts to influence is germane to its social welfare purposes, the organization is engaged in activities that further social welfare purposes. See for example Rev. Rul. 67-293, 1967-2 C.B. 185 (promotion of legislation on animal rights); Rev. Rul. 76-81, 1976-1 C.B. 156 (advocacy of anti-abortion legislation); Rev. Rul. 68-656, 1968-2 C.B. 216 (legalization of currently illegal activity); and Rev. Rul. 71-530, 1971-2 C.B. 237 (advocacy of changes in the tax law).
2. An organization whose primary activity is lobbying to advance the financial interests of its members cannot qualify. See Rev. Rul. 80-107, 1980-1 C.B. 117.
3. IRC 504 bars an organization revoked under IRC 501(c)(3) for excessive legislative activities from qualifying under IRC 501(c)(4).

#### **7.25.4.9 (02-08-1999)**

##### **Social and Recreational Activities**

1. Reg. 1.501(c)(4)-1(a)(2)(ii) states that social and recreational activities are not social welfare activities. However, even if a substantial part of an organization's activities consists of social functions for the benefit, pleasure, and recreation of its members, it may qualify for exemption under IRC 501(c)(4) if it is primarily engaged in social welfare activities. For example, a garden club that instructs the public on horticultural subjects, holds public flower shows, makes awards for horticultural achievement and also conducts substantial social activities qualifies as a social welfare organization under IRC 501(c)(4) as it is operated primarily to bring about civic and social improvements. See Rev. Rul. 66-179, 1966-1 C.B. 139.

#### **7.25.4.10 (02-09-1999)**

##### **Business Activities and the Primary Activity Test**

1. Social welfare organizations are not precluded from engaging in business activities as a means of financing their social welfare programs. However, the regulations provide that an organization is not operated exclusively for the promotion of social welfare if its primary activity is carrying on a business with the general public. An organization is not precluded from exemption merely because it charges a nominal admission fee. See, for example, Rev. Rul. 67-109, 1967-1 C.B. 136, which involved a community recreation facility.
2. A determination whether business activity is the "primary activity" of an organization claiming exemption under IRC 501(c)(4) depends on all the facts and circumstances of the particular case. The following court cases and revenue rulings illustrate the application of the primary activity test in specific situations.

##### **7.25.4.10.1 (02-09-1999)**

##### **Published Precedent Illustrating Business Activities and the Primary Activity Test**

1. Operation of a resort—In People's Educational Camp Society, Inc. v. Commissioner, 331 F.2d 923 (2nd Cir. 1964), a nonprofit corporation's social welfare activities were supported by its operation of a commercial resort. The court rejected the argument that the resort activities were social welfare and characterized them as business activities. It noted that a large portion of the revenue was being reinvested

in the commercial operation. As the business activities were of such magnitude in comparison with the social welfare activities that the organization could not be said to be exclusively (that is, "primarily" ) engaged in the promotion of social welfare, the court held the organization nonexempt.

2. Public dances—In Club Gaona, Inc. v. United States, 167 F. Supp. 741 (S.D. CA 1958), the organization's principal activity was the promotion of regular public dances, which were its main source of income. The club used these profits for speculative real estate dealings. The court held that the organization was not primarily promoting social welfare as its profits were devoted to the accumulation of funds which were not used for ascertainable civic projects.
3. Housing projects—An organization formed to manage low and moderate income housing projects for a fee does not qualify for exemption under IRC 501(c)(4). Management services were the primary activity and were carried on in a manner similar to organizations operated for profit. See Rev. Rul. 70-535, 1970-2 C.B. 117.
4. Thrift stores—A foundation reselling donated goods for a profit was held taxable even though its net profits were payable to a veterans' organization exempt under IRC 501(c)(4). Veterans Foundation v. United States, 281 F.2d 912 (10th Cir. 1960). In that case, the primary purpose of the organization, as evidenced by its activities, was to engage in business.
5. Lottery; profits used for expenses—A nonprofit organization, created exclusively for the promotion of social welfare, which conducts weekly drawings among members of the general public as its principal activity and uses the profits therefrom primarily for the payment of its general expenses is not entitled to exemption as an organization described in IRC 501(c)(4). See Rev. Rul. 61-1 58, 1961-2 C.B. 115.
6. Semiprofessional baseball club—A nonprofit corporation that operates a semiprofessional baseball club as its principal activity is not entitled to exemption under IRC 501(c)(4). See Rev. Rul. 55-516, 1955-2 C.B. 260. On the other hand, an amateur baseball team was held to qualify. See Rev. Rul. 69-384, 1969-2 C.B. 122.
7. Sorority; control by business corporation—When a national sorority is created and controlled by a business corporation engaged in furnishing services and supplies to the sorority and its member chapters, neither the sorority nor its chapters can qualify for exemption from Federal income tax under IRC 501(c)(7) or IRC 501(c)(4) because they serve the financial interests of the business corporation. Under the circumstances, the sorority activity assumed the coloration of a business activity. See Rev. Rul. 66-360, 1966-2 C.B. 228.
8. Golf tournament sponsorship—A nonprofit organization, whose membership is limited to local residents, and whose sole activity is sponsoring an annual professional golf tournament for which it leases a golf course and charges admission, is not operated primarily for the promotion of social welfare and does not qualify for exemption. See Rev. Rul. 74-298, 1974-1 C.B. 133.
9. Security services—A nonprofit organization provides security services for residents and property owners of a particular community, who agree to pay at a specified hourly rate to defray the cost of the services. By providing security services in return for compensation the organization is carrying on a business with the general public in a manner similar to organizations operated for profit and does not qualify for exemption under IRC 501(c)(4). See Rev. Rul. 77-273, 1977-2 C.B. 194.
10. Business activities; profits to members—A community welfare corporation that purchases and sells unimproved land and engages in other business activities, the profits from which are distributed to members, is not exempt under IRC 501(c)(4). See Rev. Rul. 69-385, 1969-2 C.B. 123.

#### **7.25.4.11 (02-09-1999)**

#### **Police and Firemen's Relief Associations**

1. Police and firemens' organizations offer various types of benefits to their police and firefighter members. As illustrated below, absent the circumstances described in Rev. Rul. 87-126, 1987-2 C.B. 150, these organizations do not qualify under IRC 501(c)(4).
2. An organization of police officers which primarily paid lump sum payments to members or death benefits to their beneficiaries does not qualify for exemption under IRC 501(c)(4). See Rev. Rul. 81-58, 1981-1 C.B. 331.
3. In Rev. Rul. 87-126, an organization composed of firemen that provide members with retirement benefits that were funded by government sources and that were the exclusive retirement benefit provided to these individuals was determined to qualify for exemption. This organization provided benefits of a type and in an amount that the local government decided was sufficiently in the public interest to be recognized as a legitimate function of government.

#### **7.25.4.12 (02-09-1999)**

##### **Health Care Organizations**

1. Organizations that provide commercial-type health insurance to the public such as Blue Cross/Blue Shield organizations do not qualify under IRC 501(c)(4). IRC 501(m) denies exemption under IRC 501(c)(4) to organizations that provide commercial-type insurance as a substantial part of their activities.
2. Organizations such as health maintenance organizations (HMO) which provide health care to the public on a subscription basis can qualify under the provisions of IRC 501(m)(3)(B). These organizations do not offer commercial type insurance and therefore are not subject to IRC 501(m). In order to qualify under IRC 501(c)(4) an HMO must establish that it sufficiently benefits the community. See Introduction to the Health Care Industry, Training 3303-102 (1-95), at page 295.
3. An individual practice association (IPA) that negotiates with health care organizations on behalf of its member doctors does not qualify under IRC 501(c)(4) since the organization primarily serves the private interests of its members. See Rev. Rul. 86-98, 1986-2 C.B. 74.

#### **7.25.4.13 (02-09-1999)**

##### **Representative Payee Organizations**

1. The Representative Payee Organization Program (RPOP) of the Social Security Administration (SSA) permits qualified organizations to collect disability insurance and supplemental security insurance benefit payments for individuals who are mentally or physically debilitated due to:
  - drug or alcohol abuse
  - mental or physical impairments, or
  - old age
2. Organizations participating in the SSA RPOP may qualify for exemption under IRC 501(c)(4). The basis and guidelines for such determination are in IRM 7.25.3. See that section for full discussion.

#### **7.25.4.14 (02-09-1999)**

##### **Local Associations of Employees**

1. IRC 501(c)(4) exempts certain associations of employees. To qualify, the association must be of a local character; its membership must be limited to employees of designated person or persons in a particular locality; and its net earnings must be devoted exclusively to charitable, educational, or recreational purposes.
2. "Local" is used in IRC 501(c)(4) in the same sense as in the case of benevolent life insurance associations exempt under IRC 501(c)(12). See Reg. 1.501(c)(4)-1(b). An employees' association which operates in

several widely separated communities is not a local association of employees within the meaning of IRC 501(c)(4).

3. Organizations devoted to activities such as providing a bus for the convenience of members, paying retirement and death benefits and providing purchase discounts to members do not qualify since such benefits do not serve charitable, educational or recreational purposes. See Rev. Rul. 55-311, 1955-1 C.B. 72; Rev. Rul. 66-59, 1966-1 C.B. 142; and Rev. Rul. 79-128, 1979-1 C.B. 197.
4. A local association of employees is not precluded from exemption merely because its activities must be approved by the employer of its members. See Rev. Rul. 70-202, 1970-1 C.B. 130.
5. For purposes of IRC 501(c)(4), the term "employees" includes retired employees who were members of the employees' association at the time of retirement. See Rev. Rul. 74-281, 1974-1 C.B. 133.
6. An employees' association that operates a gas station that sells only to members and to the employer company and uses the proceeds exclusively for recreational purposes qualifies under IRC 501(c)(4). Neither the operation of the station or the sales to the employer are disqualifying since the proceeds are used for recreational purposes, and the income from the employer is considered as a form of employer support. See Rev. Rul. 66-180, 1966-1 C.B. 144.

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