

[Exemptions]

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

26 U.S. Code § 501 (c)(11)



501(c)(11) — Teachers' Retirement Fund Associations



Part 7. Rulings and Agreements

Chapter 25. Exempt Organizations Determinations Manual

Section 11. Teachers' Retirement Fund Associations

7.25.11 Teachers' Retirement Fund Associations

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Manual Transmittal

May 02, 2014

Purpose

(1) This transmits revised IRM 7.25.11, Exempt Organizations Determinations Manual, Teachers Retirement Fund Associations.

Material Changes

(1) This IRM was reviewed for technical sufficiency and no changes were necessary other than to insert a link to Internal Revenue Code references and to correct some minor editorial errors.

Effect on Other Documents

IRM 7.25.11, dated June 1, 2001, is superseded.

Audience

TEGE (Exempt Organizations)

Effective Date

(05-02-2014)

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7.25.11.1 (05-02-2014)

Overview

1. Guidance is provided for examiners on Teachers' Retirement Fund Associations.

7.25.11.2 (05-02-2014)

Statutory Provisions

1. IRC 501(c)(11) provides exemption from Federal income tax for teachers' retirement fund associations of a purely local character, if —
 - A. No part of their net earnings inures (other than through payment of retirement benefits) to the benefit of any private shareholder or individual, and
 - B. The income consists solely of amounts received from public taxation, amounts received from assessments on the teaching salaries of members, and income in respect of investments.
2. No regulations have been issued under IRC 501(c)(11), nor have any rulings or court decisions been published under this provision. It would seem, therefore, that this section has very limited application.

7.25.11.2.1 (05-02-2014)

General Discussion

1. While this section provides for exemption for "teachers' retirement fund associations," the reference is considered to be descriptive only, and should not be construed as prohibiting the inclusion of other school employees as members of the fund. However, the membership of other employees should be incidental.
2. The phrase "of a purely local character" has the same meaning for the purpose of this section as it has for the purposes of IRC 501(c)(12), relating to benevolent life insurance associations.
 - A. The regulations under the latter section state that an organization of a purely local character is one whose business activities are confined to a particular community, place, or district, irrespective, however, of political subdivisions.

- B. If the activities of an organization are limited only by the borders of a State it cannot be considered to be purely local in character. See Treas. Reg. 1.501(c)(12)-1(b).
- 3. The income of organizations exempt under IRC 501(c)(11) is limited to amounts received from public taxation, assessments on teaching salaries of members, and income in respect of investments.
- 4. The distinction between investment income and business income is often difficult to determine. Where an organization limits its activities to merely investing in securities which draw interest or dividends, the income is clearly investment income. However, where it actively solicits loan business and makes numerous loans during the year, the question arises whether the resulting income takes the character of income from business.

7.25.11.3 (05-02-2014)

Application for Exemption

- 1. There is no prescribed form on which organizations apply for exemption under IRC 501(c)(11). Any form of written application is acceptable as long as it is submitted in duplicate and shows—
 - A. The character of the organization,
 - B. Its purposes and activities,
 - C. The source of its receipts and the disposition thereof,
 - D. Whether any of its income may be credited to surplus or may inure to the benefit of any private shareholder or individual, and
 - E. Any other information that may affect its right to exemption.
- 2. An organization must also submit, in duplicate, copies of its articles of incorporation or other enabling instrument, its by-laws or other governing regulations, and its latest financial statements showing its assets, liabilities, receipts, and disbursements. See Treas. Reg. 1.501(a)-1(a)(3).

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