

An organization which holds title to a building housing its parent, which is exempt under section 501(c)(4) of the Internal Revenue Code of 1954, maintains the building, and operates the social facilities located in the building, does not qualify for exemption from Federal income tax under section 501(c)(2) or section 501(c)(4) of the Code; but it does qualify under section 501(c)(7) of the Code.

Advice has been requested whether, under the circumstances described below, a subsidiary of a veterans' organization qualifies for exemption from Federal income tax under section 501(c)(2), 501(c)(4), or 501(c)(7) of the Internal Revenue Code of 1954.

A veterans' organization which is exempt under section 501(c)(4) of the Code established a wholly owned not-for-profit subsidiary. The subsidiary's purpose is to hold title to a building, and to maintain and operate the veterans' organization's social facilities located in the building. Members of the veterans' organization automatically become members of the subsidiary, and a percentage of the membership dues is paid over to the subsidiary. The subsidiary's charter provides that in the event of its dissolution its assets are to be distributed to the veterans' organization.

The subsidiary's activities consist of holding title to the building housing the veterans' organization, maintaining the building, and operating the social facilities, including a bar, restaurant, and gameroom, located in the building. Only members and their bona fide guests are admitted to the social facilities. The subsidiary's income is from membership dues and receipts from the bar, restaurant, and gameroom. Its expenses are for operating and maintenance costs.

Section 501(c)(2) of the Code provides for the exemption of corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under section 501(a) of the Code.

The subsidiary is not organized for the exclusive purpose required by section 501(c)(2) of the Code; and it operates social facilities, which is outside the scope of section 501(c)(2). Accordingly, it does not qualify for exemption under section 501(c)(2) of the Code.

Section 501(c)(4) of the Code provides, in part, for the exemption of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare. An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the

people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements. 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. See section 1.501(c)(4)-1 of the Income Tax Regulations.

Unlike its parent, which engages in various activities for the common good and general welfare of the people of the community typical of a veterans' organization, such as promoting patriotism, preserving the memory of those who died in war, and assisting veterans in need, the subsidiary engages in no social welfare activities. Further, its primary activity is operating a social club. Accordingly, it does not qualify for exemption under section 501(c)(4) of the Code.

Section 501(c)(7) of the Code provides for the exemption of 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.

An organization which engages in club activities and provides a meeting place for the members of its parent may qualify under section 501(c)(7) of the Code. See Revenue Ruling 56-305, C.B. 1956-2, 307. Accordingly, it is held that the subsidiary is exempt under section 501(c)(7) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(7) of the Code, file an application on Form 1025, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.