

INTERNAL REVENUE SERVICE

DEPARTMENT OF THE TREASURY  
10 MetroTech Center

Release Number: **200846033**

Release Date: 11/14/08

Date: August 12, 2008

625 Fulton Street  
Brooklyn, NY 11201

LEGEND

UIL: 501.07-01

ORG = Organization name

Address = address

XX = Date

ORG

Person to Contact:

ADDRESS

Identification Number:

Contact Telephone Number

In Reply Refer to: TE/GE Review Staff

EIN:

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

This is a Final Adverse Determination as to your exempt status under section 501(c)(7) of the Internal Revenue Code.

Our adverse determination was made for the following reasons:

The ORG fails to meet the requirement for exemption under IRC 501(c)(7). IRC 501(c)(7), as changed by the Tax Reform Act of 1969 provides for the exemption of clubs organized and operated for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Based on the above, we are revoking your organization's exemption from Federal Income Tax under section 501(c)(7) of the Internal Revenue Code effective July 1, 20XX.

You are required to file Federal Income Tax returns on Form 1120. These returns should be filed with the appropriate Service Center for all years beginning after June 30, 20XX.

You are required to file Form 1120, U.S. Corporation Income Tax Return. Form 1120 must be filed by the 15<sup>th</sup> day of the third month after the end of your annual accounting period. A penalty of \$20 a day is charged when a return is filed late, unless there is reasonable cause for the delay. However, the maximum penalty charged cannot exceed \$10,000 or 5 percent of your gross receipts for the year, whichever is less. This penalty may also be charged if a return is not complete, so please be sure your return is complete before you file it.

You have the right to contact the office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers. You can call and

ask for Taxpayer Advocate assistance. Or you can contact the Taxpayer Advocate from the site where the tax deficiency was determined by calling or writing to: Internal Revenue Service.

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determinations, nor extend the time fixed by law that you have to file a petition in the United States Tax Court. The Taxpayer Advocate can however, see that a tax matter that may not have been resolved through normal channels, gets prompt and proper handling.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Vicki L. Hansen, Acting  
Director, EO Examinations

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>	Schedule number or exhibit
Name of taxpayer  <b>ORG</b>	Tax Identification Number	Year/Period ended  <b>June 30, 20XX</b>

**LEGEND**

ORG = Organization name      XX = Date      XYZ = State      City = city      College = college  
 Address = address      CO-1 = 1<sup>st</sup> company      President = president  
 Vice-President-1 = 1<sup>st</sup> vice president      Vice-President-2 = 2<sup>nd</sup> vice president  
 Scholarship Chairman = scholarship chairman

**Issue:**

1. Whether ORG meets the requirements for continued recognition of exemption from federal income tax under Section 501(c)(7) of the Internal Revenue Code?
2. Whether ORG qualifies for recognition of exemption from federal income tax under Section 501(c)(2) of the Internal Revenue Code?

**Facts:**

ORG was incorporated on September 6, 19XX, as a Domestic Non-Profit Corporation in the State of XYZ. ORG is recognized as an exempt organization under Section 501(c)(7) of the Internal Revenue Code. The officers of ORG are President and Treasurer, Vice President-1, Vice President-2 and Scholarship Chairman. ORG was notified on December 11, 20XX, of a pending examination of its books and records for the tax year ended June 30, 20XX. An examination was conducted at President's office on January 11, 20XX.

ORG stated on Form 1024, *Application for Recognition of Exemption Under Section 501(a)*, that the purpose of the organization is to assist a new fraternity chapter to manage its business affairs, and to provide good living and study conditions for undergraduate students at College, located in City, XYZ. ORG indicated in the application that it will receive monthly rental income from the occupants living in the fraternity house. ORG indicated that it will expend funds for the monthly mortgage payments for the chapter house and the necessary repairs to the house to keep it in suitable condition. ORG indicated that the only activity of the organization will be the acceptance of rent from the local fraternity chapter members and the paying out of these funds for the mortgage payments. The stated purposes of the organization as described in its Articles of Incorporation are to:

- (1) provide without profit improved housing and educational facilities for male students in attendance at the College;
- (2) assist needy and deserving male students to complete their educational work at the College;
- (3) set up scholarships for undergraduate and graduate work by male students in attendance at the College;
- (4) initiate, undertake, encourage, promote, assist, finance, administer, and execute such programs and projects as may be desirable for the effective realization of the objects and purposes herein set forth and the accomplishments thereof;
- (5) purchase, take, hold, accept title, lease, or otherwise acquire by contribution, gift, grant, devise, bequest, or otherwise, any real or personal property including land, buildings, equipment, and other facilities of every

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kind within the State of XYZ, or within any State of the United States, or within any foreign country, without limitation as to amount or value and which may appertain to and be useful in the conduct of the affairs of this corporation;

(6) give, grant, donate, lend, sell, assign, transfer, convey, lease, exchange, mortgage, convey in trust, pledge, hypothecate, or otherwise subject to lien or dispose of any and all of its real and personal property, including land, buildings, and equipment, and other facilities of every kind;

(7) borrow money for its corporate purposes, and to make, accept, indorse, execute, and issue promissory notes, bills of exchange, bonds, debentures, or other obligations from time to time, for the purchase of property, or for any purpose in or about the business of the corporation, and, if deemed proper, to secure the payment of any such obligations by mortgage, pledge, deed of trust, or otherwise;

(8) accept money and funds of every kind by gift, grant, bequest, or otherwise, for the payment of property acquired for any of the objectives and purposes of this corporation, or in relation to the handling of any part of its activities; and

(9) to carry on such other business enterprises or activities as may be related to or connected with the foregoing.

Article II Section I of the organization's bylaws states that membership in ORG may be obtained by:

- (1) members of the ORG Chapter of the CO-1, and
- (2) other members of the CO-1.

Article II Section II of the organization's bylaws states that all members will have an equal vote at all membership meetings and equal rights in the corporation. Article II Section III states that there will be an annual membership meeting on the second Tuesday of May at 8:00 pm. At such annual meeting, trustees will be elected and all business may be transacted. Article II Section IV states that a quorum for the transaction of business at any membership meeting will be five.

Article III Section I of the organization's bylaws states that the business and property of the corporation will be managed by a Board of five Trustees, elected as provided in the Articles of Incorporation. Article III Section II states that the regular meeting of the Trustees will be held immediately after the adjournment of the membership meeting. Article III Section IV states that a quorum for the transaction of business will consist of three trustees. Article III Section V states that the trustees will elect officers of the corporation and the election will be held at the directors' meeting following each annual membership meeting.

Article IV Section I of the organization's bylaws states that the officers of the organization will be a President, Vice President, Secretary, and Treasurer. Each officer will be elected for one year. The office of the Secretary and Treasurer may be held by one member. Article IV Section II states that the President will preside at all Trustee and Membership meetings. He will have general supervision over the affairs of the corporation and over all other officers. He will sign all written contracts of the corporation, countersign all checks, and perform all other duties incidental to his office. In case of the absence or disability of the

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President, his duties will be performed by the Vice President. Article IV Section III states that the Secretary will keep a membership roll with addresses of members. He will issue notices of Trustees' meetings and membership meetings and will attend and keep the meeting minutes. He will maintain possession of all corporate books, records, and papers, and will be custodian of the corporate seal, and will perform all other duties incidental to his office. Article IV Section IV states that the Treasurer will have custody of all money, notes, and securities of the corporation. He will sign all checks of the corporation, keep books of account, and submit them together with his vouchers, receipts, records, and other papers to the directors, and perform all other duties incidental to his office.

The organization's President, President, stated during the initial interview held on January 11, 20XX, that ORG owns the fraternity house and property occupied by the CO-1. The fraternity house and property is located at Address next to XYZ State University in City, XYZ. President stated that to become a member of ORG, an individual must be an alumni of either the local or national CO-1. President stated that ORG has approximately 700 initiated members.

ORG purchased the fraternity house and property located in City, XYZ in 19XX. The house holds men and is square feet. ORG performed a major renovation of the fraternity house in June of 20XX. President stated that the organization expended \$ to replace the fraternity's roof, upgrade the kitchen, and remodel the bathrooms. President stated that ORG is currently in the process of replacing all of the windows in the fraternity house. President also stated that the fraternity house needs new electrical wiring and plumbing, and a new boiler.

ORG does not hold regular meetings. The organization holds an annual meeting in October each year during the homecoming weekend at XYZ State University in City, XYZ. President stated that the organization holds meetings as needed. The annual meeting generally consists of up to twelve people that include the board of directors, other alumni members, and the undergraduate students living in the fraternity house who offer suggestions about the improvements that should be made to the fraternity house by the ORG.

ORG charges rent to members of the CO-1 who reside at the fraternity house. The total rent of all tenants is \$ per year and is payable in ten equal payments. During the year under examination, the organization received \$ in rental income from the fraternity members. ORG used the rental income received from the fraternity members to pay the operational expenses of the fraternity house. The expenses incurred during the year under examination included payments for the mortgage, utilities, property taxes, and maintenance of the fraternity house. The organization normally also receives interest income from a savings account, and voluntary donations from alumni members of CO-1.

On January 29, 20XX, President was requested in writing to amend ORG's Articles of Incorporation in order to modify the organization's tax exempt status from an Internal Revenue Code Section 501(c)(7) Social Club, to an Internal Revenue Code Section 501(c)(2) Title Holding Corporation. President was requested to provide the amended Articles of Incorporation by February 28, 20XX. President was also requested to describe the extent of control that the members of the CO-1 exercise over the use of the funds provided by the ORG. President was advised that the absence of some control by the supported organization will be fatal to the exemption of the title holding corporation.

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On February 26, 20XX, President provided a written response indicating that he has not been able to prepare the amended Articles of Incorporation for ORG to meet the Section 501(c)(2) requirements discussed in the examination. President requested an additional 90 days to amend ORG's Articles of Incorporation and file with the State of XYZ.

On June 19, 20XX, President was mailed a second request by certified mail to amend ORG's Articles of Incorporation to properly reflect the statutory requirements under Section 501(c)(2) of the Internal Revenue Code. President was requested to provide the information by July 19, 20XX. President was also requested to describe the extent of control that the members of the CO-1 exercise over the use of the funds provided by the ORG. President was advised that the absence of some control by the supported organization will be fatal to the exemption of the title holding corporation. To date, President has not responded to the requests made by the Internal Revenue Service.

### Law:

#### **Internal Revenue Code**

Section 501(a) of the Internal Revenue Code provides that an organization described in Section 501(c)(7) of the Code is exempt from income tax. Section 501(c)(7) of the Code exempts from federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes, and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 501(a) of the Internal Revenue Code provides that an organization described in Section 501(c)(2) of the Code is exempt from income tax. Section 501(c)(2) of the Code exempts from federal income tax 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 this section.

#### **Federal Tax Regulations**

Section 1.501(c)(7)-1 of the regulations provides that, in order to be exempt as an organization described in Section 501(c)(7), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(7)-1(a) of the regulations states that the exemption provided by Section 501(a) for organizations described in Section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

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Section 1.501(c)(2)-1(a) of the regulations states that a corporation described in Section 501(c)(2) and otherwise exempt from tax under Section 501(a) is taxable upon its unrelated business taxable income. Since a corporation described in Section 501(c)(2) cannot be exempt under Section 501(a) if it engages in any business other than that of holding title to property and collecting income therefrom, it cannot have unrelated business taxable income as defined in Section 512 other than income which is treated as unrelated business taxable income solely because of the applicability of Section 512(a)(3)(C); or debt financed income which is treated as unrelated business taxable income solely because of Section 514; or certain interest, annuities, or royalties, or rents which are treated as unrelated business taxable income solely because of Section 512(b)(3)(B)(ii) or (13). Similarly, exempt status under Section 501(c)(2) will not be affected where certain rents from personal property leased with real property are treated as unrelated business taxable income under Section 512(b)(3)(A)(ii) solely because such rents attributable to such personal property are more than incidental when compared to the total rents received or accrued under the lease, or under Section 512(b)(3)(B)(i) solely because such rents attributable to such personal property exceed 50 percent of the total rents received or accrued under the lease.

Section 1.501(c)(2)-1(b) of the regulations states that a corporation described in Section 501(c)(2) cannot accumulate income and retain its exemption, but it must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under Section 501(a).

### Court Cases

In the case of Chattanooga Auto Club v. Commissioner of Internal Revenue, 182 F.2d 551, the Sixth Circuit of the United States Court of Appeals held that the organization was not a club organized and operated exclusively for pleasure, recreation, and other non-profitable purposes and was not entitled to exemption from federal income taxes. The Court stated that to be exempt under Section 501(c)(7) of the Internal Revenue Code, a club must have been organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, with none of its earnings inuring to the benefit of its membership. The Court stated that for a corporation to be exempt from taxation as a social club there must exist a meaningful commingling of members which plays a material part in the life of the organization.

In the case of Roche's Beach, Inc. v. Commissioner of Internal Revenue, 96 F.2d 776, the Second Circuit of the United States Court of Appeals held that where a corporation, organized by testator to operate his property, collect income therefrom, and transfer the income over to a charitable foundation created by his will, not only collected rentals, but also operated a bathing beach business from which income of \$85,000 was received, the Court ruled that the corporation was not exempt from federal income tax in that it was not merely holding title to property and collecting income therefrom for an organization exempt from tax.

In the case of Banner Building Company, Inc. v. Commissioner of Internal Revenue, 46 B.T.A. 857, the United States Board of Tax Appeals denied the petitioners claim for classification as a title holding corporation. The Court stated that a title holding corporation is one which has been organized for the exclusive purpose of holding title to property, collecting the income therefrom, and turning over the entire amount, less expenses, to an exempt organization. The Court stated that the organization has failed to demonstrate that it is organized for this purpose. Banner Building Company argued that notwithstanding its

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charter provisions, it was organized to serve the purposes of a title holding company for Banner Council, a local lodge unit of the Junior Order of United American Mechanics, a fraternal beneficiary society. The Court held that an essential requirement of a title holding company is that it is to turn over the income from the property held, less expenses, to an exempt association. The Court held that the organization failed to demonstrate that it had any legal obligation to turn over any of its funds to Banner Council, nor did it show that it did in fact pay over any of its funds to Banner Council.

## Revenue Rulings

Revenue Ruling 58-589, 1958-2 C.B. 266, (Jan. 01, 1958) provides tests to be met in determining whether a social club can qualify for exemption from Federal income tax under the provisions of Section 501(a) of the Internal Revenue Code of 1954. Section 501(c)(7) of the Internal Revenue Code provides exemption from federal income tax for clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities. The Revenue Ruling describes the characteristics of a social club as personal contacts, fellowship, and a commingling of members.

In making a determination of whether an organization satisfies the requirements under Section 501(c)(7) of the Internal Revenue Code, all facts pertaining to its form of organization, method of operation, and activities must be considered. An organization must establish that it is a club that is both organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and that no part of its net earnings inures to the benefit of any private shareholder or individual. In order to qualify for exemption under Section 501(c)(7) of the Code, a commingling of members must play a material part in the activities of the organization. An organization is primarily a social club in that its major functions are to provide a meeting place for its members, the place where their meals are served, and the headquarters for their entertainment.

A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under Section 501(a). Therefore, to qualify for income tax exemption, a social club should not advertise its facilities for non-member patronage since this would be evidence that it was engaged in a business activity. Likewise, a social club should not engage in any type of business activity for profit which is designed to increase or which could result in an increase in net earnings inuring to the benefit of any shareholder or individual.

Net earnings may inure to members in such forms as an increase in services offered by the club without a corresponding increase in dues or other fees paid for club support, or as an increase in the club's assets which would be distributable to members upon the dissolution of the club. Where a club engages in income producing transactions which are not a part of the club purposes, exemption will not be denied because of incidental, trivial, or non-recurrent activities such as sales of property no longer adapted to club purposes. In order to retain exemption, a club must not enter into outside activities with the purpose of deriving a



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profit. If such income producing activities are other than incidental, trivial, or non-recurrent, it will be considered that they are designed to produce income and will defeat exemption.

Revenue Ruling 68-222, 1968-1 C.B. 243, provides a stock corporation which was organized and operated for the purpose of holding title to a chapter house of a college fraternity that is exempt from federal income tax under Section 501(c)(7) of the Internal Revenue Code. The capital stock of the corporation is owned by members of the fraternity who, however, have no rights to receive profits, either in the form of dividends or in liquidating distributions. The ownership of the stock by the members rather than by the fraternity will not disqualify the corporation from exemption from federal income tax under Section 501(c)(2) of the Code provided that the stockholders do not receive any dividends or profits. All of the income from the property, less its expenses, will be paid directly to the exempt organization.

Revenue Ruling 71-544, 1971-2 C.B. 227, states that a group of philanthropists organized a non-profit corporation to which they transferred income producing stocks and securities. The charter of the corporation provides that the purpose of the organization is to hold title to stocks and securities and at the end of each year to turn over its income, less expenses, to an organization selected by its board of directors. The charter further provides that any recipient organization must be exempt from Federal income tax under Section 501 of the Internal Revenue Code. The stock of the title holding corporation is owned by the group of philanthropists. The stock confers no rights on the shareholders to receive dividends or to participate in liquidating distributions.

Section 501(c)(2) of the Code provides for the exemption from federal income tax of corporations organized for the exclusive purpose of holding title to property, collecting income from the property, and turning over the entire amount, less expenses, to an organization which itself is exempt under Section 501(a) of the Code. Section 501(c)(2) of the Code provides exemption from federal income tax for a corporation that holds title to property only where there is effective ownership and control over the title holding corporation by the related organization. Control may be evidenced by owning the voting stock of the title holding corporation or possessing the power to select nominees to hold the voting stock. The title holding corporation is not owned or controlled by the exempt organization to which it turns over its income. It is held that the organization is not a title holding corporation described in Section 501(c)(2) of the Internal Revenue Code.

Revenue Ruling 77-429, 1977-2 C.B. 189, states that an exempt title holding corporation may retain part of its income each year to apply to indebtedness on property to which it holds title. The transaction will be treated as if the income had been turned over to the exempt parent and the organization had used the income to make a capital contribution to the title holding corporation which, in turn, applied the contribution to the indebtedness. All of the corporation's stock is owned by an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code. By agreement with the parent, the corporation retains a part of income each year and applies it to the indebtedness it has incurred on the property to which it holds title. Section 1.501(c)(2)-1(b) of the regulations provides that a corporation described in Section 501(c)(2) of the Code cannot accumulate income and retain its exemption but must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under Section 501(a).

The title holding corporation is by its nature responsive to the needs and purposes of its exempt parent which established it mainly to facilitate the administration of the property. If the title holding company must

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remit all of its net income to the parent every year, it will have no funds with which to meet its own indebtedness. Rather, the title holding company would have to turn repeatedly to the parent for additional contributions to its capital, or the parent will have to make direct payments on the indebtedness of the subsidiary. Thus, the subsidiary will be restricted in serving the needs of the parent in connection with the administration of the property. Therefore, the title holding company may retain part of its income each year to apply to indebtedness on property to which it holds title.

**Taxpayer's Position:**

At the time of issuance of the report, no position statement has been provided by the organization.

**Government's Position:**

Issue 1: Whether ORG meets the requirements for continued recognition of exemption from federal income tax under Section 501(c)(7) of the Internal Revenue Code?

Section 501(c)(7) of the Internal Revenue Code exempts from federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes, and no part of the net earnings of which inures to the benefit of any private shareholder. An organization exempt under Section 501(c)(7) of the Internal Revenue Code is generally supported by membership fees, dues, and assessments. An organization may also raise revenue from its members through the use of the club facilities or in connection with the club's activities. The general characteristics of a social club include an established membership of individuals, personal contacts and fellowship, and a commingling of members.

In determining whether an organization satisfies the requirements under Section 501(c)(7) of the Internal Revenue Code, all facts pertaining to its form of organization, method of operation, and activities must be considered. An organization must establish that it is a club that is both organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and that no part of its net earnings inures to the benefit of any private shareholder or individual.

An organization is primarily a social club in that its major functions are to provide a meeting place for its members, the place where their meals are served, and the headquarters for their entertainment. In the case of Chattanooga Auto Club v. Commissioner of Internal Revenue., the Court stated that for a corporation to be exempt from taxation as a social club there must exist a meaningful commingling of members which plays a material part in the life of the organization. The Court held that an organization that was not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes was not entitled to exemption from federal income tax under Section 501(c)(7) of the Internal Revenue Code.

ORG was formed to hold title to the CO-1 house, collect the rental income from the fraternity members, and pay the expenses incurred to maintain the property. ORG is not organized and operated exclusively for pleasure, recreation, or other non-profitable purposes within the meaning of Section 501(c)(7) of the Internal Revenue Code. ORG does not meet the requirements of a social club because it does not provide a meeting place for its members, a regularly established opportunity for commingling by the current and former

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members of the CO-1, or an established facility for member meals or entertainment. Therefore, ORG does not meet the requirements for continued recognition of exemption under Section 501(c)(7) of the Internal Revenue Code.

Issue 2: Whether ORG qualifies for recognition of exemption from federal income tax under Section 501(c)(2) of the Internal Revenue Code?

Section 501(c)(2) of the Internal Revenue Code exempts from federal income tax corporations organized for the exclusive purpose of holding title to property, collecting income from the property, and turning over the entire amount, less expenses, to an organization which itself is exempt under Section 501(a) of the Code. An organization cannot be exempt under Section 501(c)(2) of the Code if it engages in any business other than holding title to property and collecting income from it. Section 501(c)(2) of the Internal Revenue Code also provides exemption from federal income tax for a corporation that holds title to property only where there is effective ownership and control over the title holding corporation by the related Section 501(a) organization.

The Internal Revenue Service attempted to modify ORG to an organization recognized as exempt under Section 501(c)(2) of the Internal Revenue Code. The organization was requested to amend its Articles of Incorporation to properly reflect the statutory requirements under Section 501(c)(2) of the Internal Revenue Code.

ORG's Articles of Incorporation provide for its corporate powers to go beyond holding title to property and collecting income by empowering the organization to engage in other business. This is evidence that the corporation is not currently organized for an "exclusive purpose" as required under the Internal Revenue Code. ORG was also requested to describe the extent of control that the members of the CO-1 exercise over the use of the funds provided by the ORG. President was advised that the absence of some control by the supported organization will be fatal to the exemption of the title holding corporation.

ORG failed to amend its Articles of Incorporation to satisfy the statutory requirements under Section 501(c)(2) of the Internal Revenue Code. Therefore, ORG does not qualify as an exempt organization under Section 501(c)(2) of the Internal Revenue Code.

**Conclusion:**

ORG does not qualify as an exempt organization under Section 501(c)(7) of the Internal Revenue Code. Also, the organization failed to amend its Articles of Incorporation to satisfy the statutory requirements under Section 501(c)(2) of the Internal Revenue Code. Therefore, revocation of ORG's tax exempt status under Section 501(c)(7) of the Internal Revenue Code is proposed to be effective as of July 1, 20XX.

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 Vice-President-1 = 1<sup>st</sup> vice president      Vice-President-2 = 2<sup>nd</sup> vice president  
 Scholarship Chairman = scholarship chairman

**Issue:**

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2. Whether ORG qualifies for recognition of exemption from federal income tax under Section 501(c)(2) of the Internal Revenue Code?

**Facts:**

ORG was incorporated on September 6, 19XX, as a Domestic Non-Profit Corporation in the State of XYZ. ORG is recognized as an exempt organization under Section 501(c)(7) of the Internal Revenue Code. The officers of ORG are President and Treasurer, Vice President-1, Vice President-2 and Scholarship Chairman. ORG was notified on December 11, 20XX, of a pending examination of its books and records for the tax year ended June 30, 20XX. An examination was conducted at President's office on January 11, 20XX.

ORG stated on Form 1024, *Application for Recognition of Exemption Under Section 501(a)*, that the purpose of the organization is to assist a new fraternity chapter to manage its business affairs, and to provide good living and study conditions for undergraduate students at College, located in City, XYZ. ORG indicated in the application that it will receive monthly rental income from the occupants living in the fraternity house. ORG indicated that it will expend funds for the monthly mortgage payments for the chapter house and the necessary repairs to the house to keep it in suitable condition. ORG indicated that the only activity of the organization will be the acceptance of rent from the local fraternity chapter members and the paying out of these funds for the mortgage payments. The stated purposes of the organization as described in its Articles of Incorporation are to:

- (1) provide without profit improved housing and educational facilities for male students in attendance at the College;
- (2) assist needy and deserving male students to complete their educational work at the College;
- (3) set up scholarships for undergraduate and graduate work by male students in attendance at the College;
- (4) initiate, undertake, encourage, promote, assist, finance, administer, and execute such programs and projects as may be desirable for the effective realization of the objects and purposes herein set forth and the accomplishments thereof;
- (5) purchase, take, hold, accept title, lease, or otherwise acquire by contribution, gift, grant, devise, bequest, or otherwise, any real or personal property including land, buildings, equipment, and other facilities of every

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kind within the State of XYZ, or within any State of the United States, or within any foreign country, without limitation as to amount or value and which may appertain to and be useful in the conduct of the affairs of this corporation;

(6) give, grant, donate, lend, sell, assign, transfer, convey, lease, exchange, mortgage, convey in trust, pledge, hypothecate, or otherwise subject to lien or dispose of any and all of its real and personal property, including land, buildings, and equipment, and other facilities of every kind;

(7) borrow money for its corporate purposes, and to make, accept, indorse, execute, and issue promissory notes, bills of exchange, bonds, debentures, or other obligations from time to time, for the purchase of property, or for any purpose in or about the business of the corporation, and, if deemed proper, to secure the payment of any such obligations by mortgage, pledge, deed of trust, or otherwise;

(8) accept money and funds of every kind by gift, grant, bequest, or otherwise, for the payment of property acquired for any of the objectives and purposes of this corporation, or in relation to the handling of any part of its activities; and

(9) to carry on such other business enterprises or activities as may be related to or connected with the foregoing.

Article II Section I of the organization's bylaws states that membership in ORG may be obtained by:

- (1) members of the ORG Chapter of the CO-1, and
- (2) other members of the CO-1.

Article II Section II of the organization's bylaws states that all members will have an equal vote at all membership meetings and equal rights in the corporation. Article II Section III states that there will be an annual membership meeting on the second Tuesday of May at 8:00 pm. At such annual meeting, trustees will be elected and all business may be transacted. Article II Section IV states that a quorum for the transaction of business at any membership meeting will be five.

Article III Section I of the organization's bylaws states that the business and property of the corporation will be managed by a Board of five Trustees, elected as provided in the Articles of Incorporation. Article III Section II states that the regular meeting of the Trustees will be held immediately after the adjournment of the membership meeting. Article III Section IV states that a quorum for the transaction of business will consist of three trustees. Article III Section V states that the trustees will elect officers of the corporation and the election will be held at the directors' meeting following each annual membership meeting.

Article IV Section I of the organization's bylaws states that the officers of the organization will be a President, Vice President, Secretary, and Treasurer. Each officer will be elected for one year. The office of the Secretary and Treasurer may be held by one member. Article IV Section II states that the President will preside at all Trustee and Membership meetings. He will have general supervision over the affairs of the corporation and over all other officers. He will sign all written contracts of the corporation, countersign all checks, and perform all other duties incidental to his office. In case of the absence or disability of the

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President, his duties will be performed by the Vice President. Article IV Section III states that the Secretary will keep a membership roll with addresses of members. He will issue notices of Trustees' meetings and membership meetings and will attend and keep the meeting minutes. He will maintain possession of all corporate books, records, and papers, and will be custodian of the corporate seal, and will perform all other duties incidental to his office. Article IV Section IV states that the Treasurer will have custody of all money, notes, and securities of the corporation. He will sign all checks of the corporation, keep books of account, and submit them together with his vouchers, receipts, records, and other papers to the directors, and perform all other duties incidental to his office.

The organization's President, President, stated during the initial interview held on January 11, 20XX, that ORG owns the fraternity house and property occupied by the CO-1. The fraternity house and property is located at Address next to XYZ State University in City, XYZ. President stated that to become a member of ORG, an individual must be an alumni of either the local or national CO-1. President stated that ORG has approximately 700 initiated members.

ORG purchased the fraternity house and property located in City, XYZ in 19XX. The house holds men and is square feet. ORG performed a major renovation of the fraternity house in June of 20XX. President stated that the organization expended \$ to replace the fraternity's roof, upgrade the kitchen, and remodel the bathrooms. President stated that ORG is currently in the process of replacing all of the windows in the fraternity house. President also stated that the fraternity house needs new electrical wiring and plumbing, and a new boiler.

ORG does not hold regular meetings. The organization holds an annual meeting in October each year during the homecoming weekend at XYZ State University in City, XYZ. President stated that the organization holds meetings as needed. The annual meeting generally consists of up to twelve people that include the board of directors, other alumni members, and the undergraduate students living in the fraternity house who offer suggestions about the improvements that should be made to the fraternity house by the ORG.

ORG charges rent to members of the CO-1 who reside at the fraternity house. The total rent of all tenants is \$ per year and is payable in ten equal payments. During the year under examination, the organization received \$ in rental income from the fraternity members. ORG used the rental income received from the fraternity members to pay the operational expenses of the fraternity house. The expenses incurred during the year under examination included payments for the mortgage, utilities, property taxes, and maintenance of the fraternity house. The organization normally also receives interest income from a savings account, and voluntary donations from alumni members of CO-1.

On January 29, 20XX, President was requested in writing to amend ORG's Articles of Incorporation in order to modify the organization's tax exempt status from an Internal Revenue Code Section 501(c)(7) Social Club, to an Internal Revenue Code Section 501(c)(2) Title Holding Corporation. President was requested to provide the amended Articles of Incorporation by February 28, 20XX. President was also requested to describe the extent of control that the members of the CO-1 exercise over the use of the funds provided by the ORG. President was advised that the absence of some control by the supported organization will be fatal to the exemption of the title holding corporation.

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On February 26, 20XX, President provided a written response indicating that he has not been able to prepare the amended Articles of Incorporation for ORG to meet the Section 501(c)(2) requirements discussed in the examination. President requested an additional 90 days to amend ORG's Articles of Incorporation and file with the State of XYZ.

On June 19, 20XX, President was mailed a second request by certified mail to amend ORG's Articles of Incorporation to properly reflect the statutory requirements under Section 501(c)(2) of the Internal Revenue Code. President was requested to provide the information by July 19, 20XX. President was also requested to describe the extent of control that the members of the CO-1 exercise over the use of the funds provided by the ORG. President was advised that the absence of some control by the supported organization will be fatal to the exemption of the title holding corporation. To date, President has not responded to the requests made by the Internal Revenue Service.

### **Law:**

#### **Internal Revenue Code**

Section 501(a) of the Internal Revenue Code provides that an organization described in Section 501(c)(7) of the Code is exempt from income tax. Section 501(c)(7) of the Code exempts from federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes, and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 501(a) of the Internal Revenue Code provides that an organization described in Section 501(c)(2) of the Code is exempt from income tax. Section 501(c)(2) of the Code exempts from federal income tax 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 this section.

#### **Federal Tax Regulations**

Section 1.501(c)(7)-1 of the regulations provides that, in order to be exempt as an organization described in Section 501(c)(7), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(7)-1(a) of the regulations states that the exemption provided by Section 501(a) for organizations described in Section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

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Section 1.501(c)(2)-1(a) of the regulations states that a corporation described in Section 501(c)(2) and otherwise exempt from tax under Section 501(a) is taxable upon its unrelated business taxable income. Since a corporation described in Section 501(c)(2) cannot be exempt under Section 501(a) if it engages in any business other than that of holding title to property and collecting income therefrom, it cannot have unrelated business taxable income as defined in Section 512 other than income which is treated as unrelated business taxable income solely because of the applicability of Section 512(a)(3)(C); or debt financed income which is treated as unrelated business taxable income solely because of Section 514; or certain interest, annuities, or royalties, or rents which are treated as unrelated business taxable income solely because of Section 512(b)(3)(B)(ii) or (13). Similarly, exempt status under Section 501(c)(2) will not be affected where certain rents from personal property leased with real property are treated as unrelated business taxable income under Section 512(b)(3)(A)(ii) solely because such rents attributable to such personal property are more than incidental when compared to the total rents received or accrued under the lease, or under Section 512(b)(3)(B)(i) solely because such rents attributable to such personal property exceed 50 percent of the total rents received or accrued under the lease.

Section 1.501(c)(2)-1(b) of the regulations states that a corporation described in Section 501(c)(2) cannot accumulate income and retain its exemption, but it must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under Section 501(a).

### Court Cases

In the case of Chattanooga Auto Club v. Commissioner of Internal Revenue., 182 F.2d 551, the Sixth Circuit of the United States Court of Appeals held that the organization was not a club organized and operated exclusively for pleasure, recreation, and other non-profitable purposes and was not entitled to exemption from federal income taxes. The Court stated that to be exempt under Section 501(c)(7) of the Internal Revenue Code, a club must have been organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, with none of its earnings inuring to the benefit of its membership. The Court stated that for a corporation to be exempt from taxation as a social club there must exist a meaningful commingling of members which plays a material part in the life of the organization.

In the case of Roche's Beach, Inc. v. Commissioner of Internal Revenue., 96 F.2d 776, the Second Circuit of the United States Court of Appeals held that where a corporation, organized by testator to operate his property, collect income therefrom, and transfer the income over to a charitable foundation created by his will, not only collected rentals, but also operated a bathing beach business from which income of \$85,000 was received, the Court ruled that the corporation was not exempt from federal income tax in that it was not merely holding title to property and collecting income therefrom for an organization exempt from tax.

In the case of Banner Building Company, Inc. v. Commissioner of Internal Revenue., 46 B.T.A. 857, the United States Board of Tax Appeals denied the petitioners claim for classification as a title holding corporation. The Court stated that a title holding corporation is one which has been organized for the exclusive purpose of holding title to property, collecting the income therefrom, and turning over the entire amount, less expenses, to an exempt organization. The Court stated that the organization has failed to demonstrate that it is organized for this purpose. Banner Building Company argued that notwithstanding its



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charter provisions, it was organized to serve the purposes of a title holding company for Banner Council, a local lodge unit of the Junior Order of United American Mechanics, a fraternal beneficiary society. The Court held that an essential requirement of a title holding company is that it is to turn over the income from the property held, less expenses, to an exempt association. The Court held that the organization failed to demonstrate that it had any legal obligation to turn over any of its funds to Banner Council, nor did it show that it did in fact pay over any of its funds to Banner Council.

## Revenue Rulings

Revenue Ruling 58-589, 1958-2 C.B. 266, (Jan. 01, 1958) provides tests to be met in determining whether a social club can qualify for exemption from Federal income tax under the provisions of Section 501(a) of the Internal Revenue Code of 1954. Section 501(c)(7) of the Internal Revenue Code provides exemption from federal income tax for clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities. The Revenue Ruling describes the characteristics of a social club as personal contacts, fellowship, and a commingling of members.

In making a determination of whether an organization satisfies the requirements under Section 501(c)(7) of the Internal Revenue Code, all facts pertaining to its form of organization, method of operation, and activities must be considered. An organization must establish that it is a club that is both organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and that no part of its net earnings inures to the benefit of any private shareholder or individual. In order to qualify for exemption under Section 501(c)(7) of the Code, a commingling of members must play a material part in the activities of the organization. An organization is primarily a social club in that its major functions are to provide a meeting place for its members, the place where their meals are served, and the headquarters for their entertainment.

A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under Section 501(a). Therefore, to qualify for income tax exemption, a social club should not advertise its facilities for non-member patronage since this would be evidence that it was engaged in a business activity. Likewise, a social club should not engage in any type of business activity for profit which is designed to increase or which could result in an increase in net earnings inuring to the benefit of any shareholder or individual.

Net earnings may inure to members in such forms as an increase in services offered by the club without a corresponding increase in dues or other fees paid for club support, or as an increase in the club's assets which would be distributable to members upon the dissolution of the club. Where a club engages in income producing transactions which are not a part of the club purposes, exemption will not be denied because of incidental, trivial, or non-recurrent activities such as sales of property no longer adapted to club purposes. In order to retain exemption, a club must not enter into outside activities with the purpose of deriving a

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profit. If such income producing activities are other than incidental, trivial, or non-recurrent, it will be considered that they are designed to produce income and will defeat exemption.

Revenue Ruling 68-222, 1968-1 C.B. 243, provides a stock corporation which was organized and operated for the purpose of holding title to a chapter house of a college fraternity that is exempt from federal income tax under Section 501(c)(7) of the Internal Revenue Code. The capital stock of the corporation is owned by members of the fraternity who, however, have no rights to receive profits, either in the form of dividends or in liquidating distributions. The ownership of the stock by the members rather than by the fraternity will not disqualify the corporation from exemption from federal income tax under Section 501(c)(2) of the Code provided that the stockholders do not receive any dividends or profits. All of the income from the property, less its expenses, will be paid directly to the exempt organization.

Revenue Ruling 71-544, 1971-2 C.B. 227, states that a group of philanthropists organized a non-profit corporation to which they transferred income producing stocks and securities. The charter of the corporation provides that the purpose of the organization is to hold title to stocks and securities and at the end of each year to turn over its income, less expenses, to an organization selected by its board of directors. The charter further provides that any recipient organization must be exempt from Federal income tax under Section 501 of the Internal Revenue Code. The stock of the title holding corporation is owned by the group of philanthropists. The stock confers no rights on the shareholders to receive dividends or to participate in liquidating distributions.

Section 501(c)(2) of the Code provides for the exemption from federal income tax of corporations organized for the exclusive purpose of holding title to property, collecting income from the property, and turning over the entire amount, less expenses, to an organization which itself is exempt under Section 501(a) of the Code. Section 501(c)(2) of the Code provides exemption from federal income tax for a corporation that holds title to property only where there is effective ownership and control over the title holding corporation by the related organization. Control may be evidenced by owning the voting stock of the title holding corporation or possessing the power to select nominees to hold the voting stock. The title holding corporation is not owned or controlled by the exempt organization to which it turns over its income. It is held that the organization is not a title holding corporation described in Section 501(c)(2) of the Internal Revenue Code.

Revenue Ruling 77-429, 1977-2 C.B. 189, states that an exempt title holding corporation may retain part of its income each year to apply to indebtedness on property to which it holds title. The transaction will be treated as if the income had been turned over to the exempt parent and the organization had used the income to make a capital contribution to the title holding corporation which, in turn, applied the contribution to the indebtedness. All of the corporation's stock is owned by an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code. By agreement with the parent, the corporation retains a part of income each year and applies it to the indebtedness it has incurred on the property to which it holds title. Section 1.501(c)(2)-1(b) of the regulations provides that a corporation described in Section 501(c)(2) of the Code cannot accumulate income and retain its exemption but must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under Section 501(a).

The title holding corporation is by its nature responsive to the needs and purposes of its exempt parent which established it mainly to facilitate the administration of the property. If the title holding company must

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remit all of its net income to the parent every year, it will have no funds with which to meet its own indebtedness. Rather, the title holding company would have to turn repeatedly to the parent for additional contributions to its capital, or the parent will have to make direct payments on the indebtedness of the subsidiary. Thus, the subsidiary will be restricted in serving the needs of the parent in connection with the administration of the property. Therefore, the title holding company may retain part of its income each year to apply to indebtedness on property to which it holds title.

**Taxpayer's Position:**

At the time of issuance of the report, no position statement has been provided by the organization.

**Government's Position:**

Issue 1: Whether ORG meets the requirements for continued recognition of exemption from federal income tax under Section 501(c)(7) of the Internal Revenue Code?

Section 501(c)(7) of the Internal Revenue Code exempts from federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes, and no part of the net earnings of which inures to the benefit of any private shareholder. An organization exempt under Section 501(c)(7) of the Internal Revenue Code is generally supported by membership fees, dues, and assessments. An organization may also raise revenue from its members through the use of the club facilities or in connection with the club's activities. The general characteristics of a social club include an established membership of individuals, personal contacts and fellowship, and a commingling of members.

In determining whether an organization satisfies the requirements under Section 501(c)(7) of the Internal Revenue Code, all facts pertaining to its form of organization, method of operation, and activities must be considered. An organization must establish that it is a club that is both organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and that no part of its net earnings inures to the benefit of any private shareholder or individual.

An organization is primarily a social club in that its major functions are to provide a meeting place for its members, the place where their meals are served, and the headquarters for their entertainment. In the case of Chattanooga Auto Club v. Commissioner of Internal Revenue., the Court stated that for a corporation to be exempt from taxation as a social club there must exist a meaningful commingling of members which plays a material part in the life of the organization. The Court held that an organization that was not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes was not entitled to exemption from federal income tax under Section 501(c)(7) of the Internal Revenue Code.

ORG was formed to hold title to the CO-1 house, collect the rental income from the fraternity members, and pay the expenses incurred to maintain the property. ORG is not organized and operated exclusively for pleasure, recreation, or other non-profitable purposes within the meaning of Section 501(c)(7) of the Internal Revenue Code. ORG does not meet the requirements of a social club because it does not provide a meeting place for its members, a regularly established opportunity for commingling by the current and former

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members of the CO-1, or an established facility for member meals or entertainment. Therefore, ORG does not meet the requirements for continued recognition of exemption under Section 501(c)(7) of the Internal Revenue Code.

Issue 2: Whether ORG qualifies for recognition of exemption from federal income tax under Section 501(c)(2) of the Internal Revenue Code?

Section 501(c)(2) of the Internal Revenue Code exempts from federal income tax corporations organized for the exclusive purpose of holding title to property, collecting income from the property, and turning over the entire amount, less expenses, to an organization which itself is exempt under Section 501(a) of the Code. An organization cannot be exempt under Section 501(c)(2) of the Code if it engages in any business other than holding title to property and collecting income from it. Section 501(c)(2) of the Internal Revenue Code also provides exemption from federal income tax for a corporation that holds title to property only where there is effective ownership and control over the title holding corporation by the related Section 501(a) organization.

The Internal Revenue Service attempted to modify ORG to an organization recognized as exempt under Section 501(c)(2) of the Internal Revenue Code. The organization was requested to amend its Articles of Incorporation to properly reflect the statutory requirements under Section 501(c)(2) of the Internal Revenue Code.

ORG's Articles of Incorporation provide for its corporate powers to go beyond holding title to property and collecting income by empowering the organization to engage in other business. This is evidence that the corporation is not currently organized for an "exclusive purpose" as required under the Internal Revenue Code. ORG was also requested to describe the extent of control that the members of the CO-1 exercise over the use of the funds provided by the ORG. President was advised that the absence of some control by the supported organization will be fatal to the exemption of the title holding corporation.

ORG failed to amend its Articles of Incorporation to satisfy the statutory requirements under Section 501(c)(2) of the Internal Revenue Code. Therefore, ORG does not qualify as an exempt organization under Section 501(c)(2) of the Internal Revenue Code.

**Conclusion:**

ORG does not qualify as an exempt organization under Section 501(c)(7) of the Internal Revenue Code. Also, the organization failed to amend its Articles of Incorporation to satisfy the statutory requirements under Section 501(c)(2) of the Internal Revenue Code. Therefore, revocation of ORG's tax exempt status under Section 501(c)(7) of the Internal Revenue Code is proposed to be effective as of July 1, 20XX.

**Internal Revenue Service**

**Department of the Treasury**  
TE/GE Exempt Organizations Examinations  
915 Second Avenue M/S W540  
Seattle, Washington 98174

Date: May 19, 2008

Taxpayer Identification Number:

Form:

ORG  
ADDRESS

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Dear

We have enclosed a copy of our report of examination explaining why we believe revocation of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process*, explains how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

You may also request that we refer this matter for technical advice as explained in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*. If a determination letter is issued to you based on technical advice, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action*. We will then send you a final letter revoking your exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have 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:

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,

Marsha A. Ramirez  
Director, EO Examinations

Enclosures:  
Publication 892  
Publication 3498  
Form 6018  
Report of Examination  
Envelope