



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Attn: Mandatory Review, MC 4920 DAL
1100 Commerce St.
Dallas, TX 75242

501-04.00

Release Number: 201323036
Release Date: 6/7/2013
ORG
ADDRESS

Date:
Employer Identification Number:
Person to Contact / ID Number:
Contact Numbers:
Voice:
Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear

In a determination letter dated September 24, 19XX, you were held to be exempt from Federal income tax under section 501(c)(4) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined that you have not operated in accordance with the provisions of section 501(c)(4) of the Code. Accordingly, your exemption from Federal income tax is revoked effective January 1, 20XX. This is a final adverse determination letter in regard to your status under section 501(c)(4) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. On February 24, 20XX, you signed Form 6018-A, Consent to Proposed Action, agreeing to the revocation of your exempt status under section 501(c)(4) of the Code.

You have filed taxable returns on Form 1120, U.S. Corporation Income Tax Return, for the year(s) ended December 31, 20XX and December 31, 20XX with us. For future periods, you are required to file Form 1120 with the appropriate service center indicated in the instructions for the return.

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 have not 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 contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

Nanette M. Downing
Director, EO Examinations

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

LEGEND

ORG - Organization name EIN - EIN XX - Date City - city County - county State - state Motto - motto CO-1, CO-2 & CO-3 - 1st, 2nd & 3rd COMPANIES

Issue:

Whether the ORG (ORG) was operated exclusively for exempt purposes described per Internal Revenue Code (IRC) section 501(c)(4):

- a. Was the ORG engaged primarily in activities that accomplish an exempt purpose and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes?
- b. Was the membership of the ORG properly limited to the employees of a designated person or persons in a particular municipality?
- c. Were benefits provided to the members in excess of the benefits permissible per IRC section 501(c)(4)?

Facts:

Background of ORG:

ORG's Articles of Incorporation:

The ORG (ORG) was initially incorporated in the State of State on February 6, 19XX. The ORG is currently tax exempt under IRC section 501(c)(4) as a local association of employees. Per the Articles of Incorporation, the purpose of the organization was to:

- Do all things necessary to advance the welfare, training, and effectiveness of the members of the corporation by the establishment and maintenance of training courses, classes, and schools for instruction in police science, detection, psychology, public relations, and any other subjects considered desirable for Motto
- Purchase and acquire books, apparatus, or equipment for the maintenance of training facilities and a Motto' library for the use of its members and such other persons as may be admitted to the use thereof by the Board of Directors
- To promote, organize, and encourage target practice, both formal and informal, with all types of firearms used by Motto; to hold and encourage organized shooting matches and meets, both intra-departmental and inter-departmental, with such weapons

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

- To promote citizenship and high standards of conduct for the youth of the County by supervising, financing, or assisting individuals, rifle clubs, traffic patrols, and other organizations among minors of the County
- To fix and collect dues and assessments from its members, and to enforce the payment of the same by forfeiture of membership for non-payment, under such conditions are specified in the by-laws
- To provide material for personnel for the giving of educational talks for service clubs and other organizations in the interest of better relations between Motto and the citizens

The organization performed the aforementioned activities throughout the first twenty years of its existence. Per the Articles of Incorporation, the association focused on training and increasing the effectiveness of its Motto membership, who were located in the County in State. The organization also promoted the citizenship and high standards of conduct of its youth per social programs administered by the corporation.

Form 1024- Application for Tax Exempt Status:

ORG submitted Form 1024, *Application for Recognition of Exemption under Section 501(c) (4) of the Internal Revenue Code*, to the Internal Revenue Service (IRS) on August 30, 19XX. The activities of the corporation as performed in 19XX were detailed on Form 1024.

Per Form 1024, the purpose of the ORG in 19XX was to promote the welfare, education, training, and recreation of its members, which is consistent with the exempt purpose as defined per IRC section 501(c)(4) for a local association of employees. Specifically, Form 1024 defined the following changes in activities from the initial Articles of Incorporation filed with the State of State:

- The primary fundraising activity is an annual fundraising dance
- The association operates a small store which sells work-related equipment to its members¹

Furthermore, Form 1024 detailed the nature of the activities that were performed in 19XX by the ORG and were intended to be carried on in the future by the association. The activities performed by the association as described via Form 1024 and approved for tax exempt status by the IRS were as follows:

* * * *

¹¹ Revenue Agent conducted an interview with the ORG's Executive Director during the examination. The Executive Director informed the agent that the small store mentioned on Form 1024 used to be located within the facility and was less accessible to the public.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

- Conducting Motto advanced, beginning, and refresher-training classes
- Operation of a retail store which sells work-related equipment
- Membership dinner meetings
- Operation of a junior rifle club
- Member life insurance
- Publication of a monthly newsletter

Per Form 1024, the ORG stated that its funds would be expended for the following purposes:

- Quarterly membership dinner meetings
- Operation of a junior rifle club
- Life insurance for some members
- Annual association ball
- Publication of a monthly newsletter

Form 1024 defines the eligibility of membership requirement as anyone employed as a Motto within the County in the State of State. For the purpose of membership, Form 1024 defines a Motto per section 830 of the Penal Code of the State of State. In September 19XX, the Internal Revenue Service (Service) issued a determination letter to ORG as IRC section 501(c)(4).

Activities Performed During the Year Under Examination (20XX):

Subsequent to the IRS granting tax exempt status to ORG in September 19XX, its activities evolved over time. In September 20XX, the Service conducted an examination of the ORG for the 20XX calendar year. During the examination, the Agent noted the following changes regarding ORG's activities from its AOI and Form 1024:

Membership Policy:

The Agent discovered that ORG's membership requirement were materially different than the requirement set forth in its Form 1024. According to Form 1024, a member of the ORG must be a Motto in the County in the State of State.

Per the interview conducted with the Executive Director of the ORG and review of the association's bylaws, the Agent noted that the organization expanded its membership requirement to include the general public. General public members enjoy the same benefits as any Motto member, which includes the % general store discount. General public members do not have the right to vote.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

Activities Performed:

In addition to the change of membership requirement, the Agent noted that ORG performed the following activities in 20XX, which were materially different from the activities stated on its Form 1024. In 20XX, ORG conducted the following activities:

1. Operation and management of a larger retail store specializing in the sale of public safety apparel and goods
2. Provide benefits to its members:
 - o Life insurance benefit
 - o Legal consultation benefit
 - o % discount on all products sold in the store (excluding weapon sales)
 - o Tax deductible annual dues (ORG has erroneously notified its members on its website that their annual dues are tax deductible)
3. Charitable donations, including cash and equipment, to local charities and police organizations
4. Sponsorship of training classes for Motto (Agent noted that ORG did not sponsor any training classes in 20XX).

During the time span from 19XX to 20XX, the ORG eliminated the following exempt activities consistent with a 501(c)(4) organization as detailed below:

- Membership dinner meetings
- Operation of a junior rifle club
- Annual association ball
- Publication of a monthly newsletter

ORG's Retail Store:

Based on interviews conducted, a tour of the facility, review of the financial statements, and review of the meeting minutes, the Agent discovered that ORG's management and employees had performed a substantial amount of their time and labor operating the retail store. The Agent determined that ORG only spent an insubstantial amount of time (e.g., less than %) to its charitable functions, such as providing charitable contributions to other organizations. It is important to note that the organization did not sponsor any officer training courses during the year under examination.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

The goods offered for sale by the ORG were defined as public safety apparel or public safety training materials. The Agent noted that most goods offered for sale were goods that could be used by Motto during their work related duties. Goods included armor, guns, pepper spray, handcuffs, cleaning supplies, and other equipment. In addition to these goods, the store sold items such as books, gloves, flashlights, gear bags, briefcases, safety glasses, tee-shirts, mugs, hats, and knives. With the exception of certain weapons (e.g., guns and high intensity pepper spray), all goods were available to the public.

The ORG store's sales of goods and apparel were open to the public in addition to their membership. Based on review of ORG's financial statements, the Agent noticed that ORG has expanded its retail store to nonmembers. Per review of the store's Quickbooks Point of Sale accounting system, the Agent discovered the nonmember public sales were nearly % of its overall store sales. Member sales consisted of approximately % of the total store sales. Member sales include both law enforcement member sales and general public member sales.

According to ORG's 20XX financial statements prepared by CO-1, its average gross margin on goods and services for sale was %, subsequent the reduction of the % price reduction for members. However, for public sales, the average gross margin was % to % according to the Executive Director's interview. From its financial data, ORG received approximately % of its total revenues from store sales. At the same time, ORG incurred approximately % of its total expenses for store related expenses, such as cost of goods sold and salaries².

The Agent reviewed the Board of Director meeting minutes to provide additional detail regarding the operation of the store. Per the Agent's review of the meeting minutes dated August 11, 20XX, the Agent noted that the Executive Director of the ORG stated that store sales and department orders had decreased due to sales at other similar public safety stores, such as CO-2, which is a national public safety apparel retailer. The Agent performed research and determined that CO-2 is a subsidiary of the CO-3, which is a for-profit entity. The Agent reviewed CO-2 store website and noticed that CO-2 sells similar public safety merchandise to law enforcement personnel and the general public.

Benefits Provided to its Membership:

Based on annual membership dues of \$ ORG members receive the following benefits:

* * * * *

² Please see attached income and expense analyses documents for additional details

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

- Life insurance benefit
 - \$ Total Cash Benefit
- Legal consultation benefit
 - Each member is allowed a free annual consultation with the Association attorney
- % discount on all products sold in the store (excluding weapon sales)
- Tax deductible annual dues of \$

The ORG spent approximately % of its total operating budget on member benefits.

Charitable Donations:

ORG donated cash and equipment to local charities and police organizations. In 20XX, ORG donated approximately \$ in cash to various local charities and police organizations which were about % of its total expenses. ORG donated approximately \$ worth of gym equipment to the City Police Department to increase the effectiveness of its police force in 20XX which was about % of its total expenses.

In aggregate, the ORG donated approximately % of its total expenses to charitable entities or local police organizations. Relative to its total expenses of \$ the ORG's charitable contributions were de minimis.

In addition to the relatively low amount of charitable spending, the ORG did not spend any money to further the recreational activities of its members. According to ORG's Executive Director, the recreational events such as dinners or dances were phased out subsequent ORG's inception.

Motto Training Classes:

ORG owns a firing range and classroom training facility for cadets and seasoned officers. According to ORG's Executive Director, ORG typically sponsors one or two training classes for officers per year. For the facility owned by ORG, the Agent obtained a copy of the quitclaim deed. Per the Quitclaim deed dated October 15, 19XX, the agreement between ORG and the County Sheriff Department was to allow City Sheriff Department to manage and supervise the firing range and the classroom facilities. The Agent noted that in 20XX, the ORG did not perform any duties or functions related to the shooting range and did not conduct any training classes at or outside of the classroom facilities.

Law:

Section 501(a) of the Internal Revenue Code (Code) states the exemption from taxation of an organization described in subsection (c) or (d) or section 401(a) shall be

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

exempt from taxation under this subtitle unless such exemption is denied under section 502 or 503.

Section 501(c)(4)(A) of the Code states, Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Section 501(c)(4)(B) of the Code States Subparagraph (A) shall not apply to an entity unless no part of the net earnings of such entity inures to the benefit of any private shareholder or individual.

Treasury Regulation 1.501(c)(4)-1 of the income tax regulations states this civic league or organization may be exempt a of:

- (i) it is not operated for-profit; and
- (ii) is operated exclusively for the promoting of social welfare.

(b) Local associations of employees. Local associations of employees described in section 501(c)(4) are expressly entitled to exemption under section 501(a). As conditions to exemption, it is required (1) that the membership of such an association be limited to the employees of a designated person or persons in a particular municipality, and (2) that the net earnings of the association be devoted exclusively to charitable, educational, or recreational purposes. The word local is defined in paragraph (b) of § 1.501(c)(12)-1. See paragraph (d)(2) and (3) of § 1.501(c)(3)-1 with reference to the meaning of charitable and educational as used in this section.

Treasury Regulation §1.501(c)(12)-1

(b) The phrase "of a purely local character" applies to benevolent life insurance associations, and not to the other organizations specified in section 501(c)(12). It also applies to any organization seeking exemption on the ground that it is an organization similar to a benevolent life insurance association. 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. 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.

Treasury Regulation §1.501(c)(3)-1., Organizations organized and operated for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

(2) Charitable defined. —The term “charitable” is used in section 501(c)(3) in its generally accepted legal sense and is, therefore, not to be construed as limited by the separate enumeration in section 501(c)(3) of other tax-exempt purposes which may fall within the broad outlines of “charity” as developed by judicial decisions. Such term includes: relief of the poor and distressed or of the underprivileged; advancement of religion; advancement of education or science; erection or maintenance of public buildings, monuments, or works; lessening of the burdens of Government; and promotion of social welfare by organizations designed to accomplish any of the above purposes, or (i) to lessen neighborhood tensions; (ii) to eliminate prejudice and discrimination; (iii) to defend human and civil rights secured by law; or (iv) to combat community deterioration and juvenile delinquency. The fact that an organization which is organized and operated for the relief of indigent persons may receive voluntary contributions from the persons intended to be relieved will not necessarily prevent such organization from being exempt as an organization organized and operated exclusively for charitable purposes. The fact that an organization, in carrying out its primary purpose, advocates social or civic changes or presents opinion on controversial issues with the intention of molding public opinion or creating public sentiment to an acceptance of its views does not preclude such organization from qualifying under section 501(c)(3) so long as it is not an “action” organization of any one of the types described in paragraph (c)(3) of this section.

(3) Educational defined

(i) In general. —The term “educational”, as used in section 501(c)(3), relates to —

(a) The instruction or training of the individual for the purpose of improving or developing his capabilities; or

(b) The instruction of the public on subjects useful to the individual and beneficial to the community.

Hearings before house ways and means committee on revenue revision of 1924, 68th congress, 1st sess. pp. 5-12; 65 cong record pt 3 pp. 2905-2906 (1924) held that a 501(c)(4) organization may not provide life, sick, or accident benefits to its members.

Rev. Rul. 66-59, 1966-1 C.B. 142 describes an organization of employees whose purpose is to pay lump sum retirement benefits to its eligible members or death benefit to their survivors does not qualify for exemption from Federal income tax under §501(c)(4) of the Internal Revenue Code of 1954 as a local association of employees.

Rev. Rul. 66-180, 1966-1 CB 144, Described a local association of employees organized exclusively for recreational purposes operates a gasoline station on property owned by the employer of its members to provide funds in addition to dues income for

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

its recreational activities. Sales are limited to its members and to the employer, and income is used exclusively for members' recreation. *Held*, neither the operation of the gasoline station, nor the selling of gasoline and oil to the employer company adversely affects its qualification for exemption since all of its income is used for recreational purposes, and income from sales to the employer of its members is considered a form of employer support of the association. The organization is therefore exempt as a local association of employees described in section 501(c)(4) of the Internal Revenue Code of 1954.

Advice has been requested whether an employees' association organized exclusively for recreational purposes which operates a gasoline station to supplement its dues income under the circumstances described below may qualify for exemption from Federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was incorporated as a nonprofit corporation, for recreational purposes, with membership limited to persons who are employees or former employees (pensioners) of a company in a particular locality. Its activities consist of providing recreation through the sponsorship of a basketball league, bowling league, bridge club, golf tournaments, square dancing, holiday parties, etc., for its members. It also maintains and operates a gasoline station, located on property leased from the company.

Sales are limited to members and the company. The organization's income is derived from membership dues, ticket sales to various recreational functions, and gasoline and oil sales. Expenditures are for recreational activities and for the operation of the gasoline station. Approximately 50 percent of the income from gasoline and oil sales is derived from sales to the employer company. All of the net earnings of the organization are required to be used for its recreational activities; no part is to be distributed to individual members.

Section 501(c)(4) of the Code exempts from Federal income tax local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

In determining this organization's qualification for exemption from tax under the foregoing provision, two factors to be considered are (1) whether the organization may engage in a "service station" type of operation, a business ordinarily carried on for profit; and (2) whether the realization by the organization of a substantial portion of its income from the sale of oil and gasoline to the employer of its members would adversely affect its qualification for exemption.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

With respect to factor number (1) a local association of employees may qualify for exemption under section 501(c)(4) of the Code notwithstanding that it engages in a business of a type ordinarily carried on for profit if, as in this case, such business is with its members, and the net earnings of the business enterprise are used exclusively for charitable, educational, or recreational purposes.

As for factor number (2) an employer may make contributions to an association of its employees to enable the organization to carry on its activities. Where it is found that, as in this case, an association of employees derives a substantial portion of its income from doing business with the employer of its members, exemption will not be denied since profits derived from doing business with the employer may be regarded as a form of employer support of the organization.

United States Court of Appeals Second Circuit. 331 F.2d 923, 13 A.F.T.R.2d 1319, 64-1 USTC P 9441 PEOPLE'S EDUCATIONAL CAMP SOCIETY, INC., Petitioner, v. COMMISSIONER OF INTERNAL REVENUE, Respondent.

Proceeding on petition to review a decision of the Tax Court, 39 T.C. 756, denying petitioner an exemption from income tax. The Court of Appeals, Waterman, Circuit Judge, held that the 'destination of income' test did not afford income tax exemption to corporation which devoted much of its revenues to improving its ability to compete commercially through accumulation of large surpluses and expansion of its income producing facilities. Court affirmed the ruling.

Taxpayer's Position:

ORG's position has not been determined.

Government's Position:

The Service contends the ORG is primarily engaged in activities through its ORG public safety apparel and goods store that:

- Does not further an exempt function purpose per IRC section 501(c)(4)
- Are organized for profit
- Sales are substantially comprised of public and non-law enforcement officer member sales
- Earnings are not devoted exclusively to charitable, educational, or recreational purposes.

Section 501(c)(4)(A) of the Code states organizations that are not organized for profit but operated exclusively for the local associations of employees, the membership

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are not devoted exclusively to charitable, educational, or recreational purposes are tax exempt.

Store Operated Similar to a For-profit Entity:

ORG's management and labor focused their efforts on the operation and profitability of the ORG range store. The focus of management and labor on the operation and profitability of the public safety range store illustrated that the association is operating similar to other for-profit range stores, such as CO-2, which sell similar public safety merchandise. Furthermore, the healthy gross margin of items sold by the ORG (e.g., greater than 20% subsequent member discounts) provide additional evidence that the association is operated like a for profit entity.

Based on the financial statements provided by the ORG, the Agent noted that the association did not spend any funds to further the recreational activities of its members. The ORG did expend funds to charitable entities; however, the total expenditures represented less than 1% of the association's operating budget. ORG's major expenditures were on merchandise for the store and salaries for individuals who operate the store on a daily basis.

In the Peoples Educational Camp Society, versus the Commissioner of Internal Revenue, the court held that the 'destination of income' test for a 501(c)(4) organization did not afford income tax exemption to a corporation which devoted much of its revenues to improving its ability to compete commercially. Based on the analysis performed of the financial records, the Agent determined that the ORG's primary focus was to operate a retail store for its members and general public use in a for-profit manner. Based on management's focus operating the ORG range store in a commercial manner, the Agent determined the EO does not qualify for exemption under IRC section 501(c)(4).

Rev. Rul. 66-180, 1966-1 CB 144, stated a local association of employees organized exclusively for recreational purposes was held to be exempt although it operated a gasoline station on property owned by the employer of its members to provide funds in addition to dues income for its recreational activities for the following reasons:

1) A local association of employees may qualify for exemption under section 501(c)(4) of the Code notwithstanding that it engages in a business of a type ordinarily carried on for profit if, as in this case, such business is with its members, and the net earnings of the business enterprise are used exclusively for charitable, educational, or recreational purposes.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

2) An employer may make contributions to an association of its employees to enable the organization to carry on its activities. Where it is found that, as in this case, an association of employees derives a substantial portion of its income from doing business with the employer of its members, exemption will not be denied since profits derived from doing business with the employer may be regarded as a form of employer support of the organization.

In the case of the ORG, however, sales from the public safety store were not limited to its members and a common employer. The general public was also able to purchase a substantial amount of goods from the store. Furthermore, the ORG's membership includes non-law enforcement officers. Based on the evidence provided regarding the operation of the range store, the ORG does not meet the requirements per Revenue Ruling 66-180, 1966-1 CB 144 and does not qualify for exemption under 501(c)(4).

Open Membership Requirements:

The Service contends that the organization is not properly limiting its membership according to Section 501(c)(4) requirements. Section 501(c)(4)(A) of the Code states that the membership of which is limited to the employees of a designated person or persons in a particular municipality.

The ORG initially limited the membership of the local association of employees to law enforcement officers in the County in 19XX per Form 1024. Based on the information provided during the course of examination, ORG did not limit membership to employees of a designated person or persons in a particular municipality during and subsequent 20XX. ORG also readily admits new members to their association that are not law enforcement officers employed within the County in State.

Improper Benefits Provided to its Membership:

Based on the annual membership dues of \$ ORG provides life insurance and legal consultation benefits to its members. These benefits are not exempt activities that are permissible for a IRC 501(c)(4) organizations. The Service contends that these benefits as provided to members of ORG were improper. As stated in Rev. Rul. 66-59, 1966-1 C.B. 142, an organization exempt under IRC §501(c)(4)'s purpose does not include paying lump sum retirement benefits to its eligible members or death benefits to their survivors. Furthermore, the hearings before house ways and means committee on revenue revision of 1924, 68th congress, 1st sess. pp. 5-12; 65 cong record pt 3 pp. 2905-2906 (1924), held that a 501(c)(4) organization may not provide life, sick, or accident benefits to its members.

De Minimis Exempt Activities Performed:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
ORG, EIN EIN		12/31/20XX

In aggregate, the ORG donated approximately \$ (%) of its total expenses to charitable entities or local police organizations. Relative to its total expenses of \$ the ORG's charitable contributions were de minimis. Furthermore, the ORG did not facilitate or sponsor any officer training courses in 20XX.

In addition to the relatively low amount of charitable spending, the ORG did not spend any money to further the recreational activities of its members. According to ORG's Executive Director, the recreational events such as dinners or dances were phased out subsequent ORG's inception.

Conclusion:

In summary, ORG has not established that it is operated for a tax exempt purpose under IRC 501(c)(4) since it did not engage primarily in activities that accomplish that purpose. Based on the examination performed, the Agent concludes that ORG did not:

- a. Engage primarily in activities that accomplish an exempt purpose and expend the net earnings exclusively to charitable, educational, or recreational purposes.
- b. Properly limit to the employees of a designated person or persons in a particular municipality.
- c. Provide permissible benefits to members per 501(c)(4).

Accordingly, the Service has determined that the ORG is not an organization exempt from Federal income taxes described in section 501(c)(4) effective January 1, 20XX. Based on the net loss incurred by the ORG for the 20XX and 20XX tax years, the total estimated tax due for these years is \$. The ORG is required to file Form 1120, *U.S. Corporation Income Tax Return*, to report the income, gains losses, deductions, credits, and to figure the income tax liability of a corporation.