

APPENDIX 2J

IRC Section 501(c)—Exemption from Tax on Corporations, Certain Trusts, Etc.

Cross Reference Data

Topical

Exempt organizations
Form 990
Profit motive

Citation

Cases—*Rancho Santa Fe Association v. U.S.A.*—4Q
—*Flat Top Lake Association v. U.S.A.*—4E
—*Commissioner v. Lake Forest, Inc.*—4C
—*Lake Petersburg Association v. Commissioner*—4J
—*Portland Golf Club v. U.S.*—4A
—*Gibbons v. U.S.*—4T
—*North Ridge Country Club v. Commissioner*—4AA
Regulations Sections—1.337(d)-4—5G, 1.501(c)(4)—5K, 1.501(c)(7)—5L, 1.501(c)(12)—5M
Revenue Rulings—65-201—6B, 68-14—6C, 69-280—6F, 69-281—6G, 72-102—6I, 74-17—6K,
74-99—6L, 75-286—6O, 75-386—6R, 75-494—6S, 80-63—6Y, 81-69—6Z
Private Letter Rulings—8028010—7F, 8648063—7U, 9539005—7AQ, 200047049—7AW,
200051046—7AX, 200226037—7AZ, 200706014—7BZ, 200720026—7CA, 200728048—7CB,
200809035—7CC, 200817064—7CD
GCM—34219—8A, 35440—8C, 35570—8D, 38629—8I

Summary

IRC Section 501(c) defines the qualifications of organizations exempt from taxation in the following categories:

- **501(c)(4)—civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.**
- **501(c)(7)—clubs organized for pleasure, recreation, or other purposes not for profit.**
- **501(c)(12)(A)—mutual benefit organizations if 85% or more of the income is collected to cover losses and expenses.**

Caution: The authors have omitted certain portions of this Section that, in the authors' opinion, are not relevant to homeowners' associations. The deleted portions are denoted by * * *.

Exemption from Tax on Corporations, Certain Trusts, Etc.

(a) EXEMPTION FROM TAXATION

An organization described in subsection (c) or (d) or section 401(a) shall be exempt from taxation under this subtitle unless such exemption is denied under section 502 or 503.

(b) TAX ON UNRELATED BUSINESS INCOME AND CERTAIN OTHER ACTIVITIES

An organization exempt from taxation under subsection (a) shall be subject to tax to the extent provided in parts II, III and VI of this subchapter, but (notwithstanding parts II, III and VI of this subchapter) shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

(c) LIST OF EXEMPT ORGANIZATIONS

The following organizations are referred to in subsection (a):

* * *

501(c)(4) Civic leagues or **organizations not organized for profit but operated exclusively for the promotion of social welfare,^a** 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.

* * *

501(c)(7) Clubs organized for pleasure, recreation,^b and other nonprofitable 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.

* * *

501(c)(12)(A) Benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations; but only if 85 percent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.^c

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Notes:

- ^a IRC Section 501(c)(4) provides for *total* exemption from tax, including tax on interest income. Few associations can meet the qualifications of this section, which are fully detailed in the regulations and revenue rulings referenced.
- ^b IRC Section 501(c)(7) provides exemption from taxation of *member* income only. Interest income is still taxed. Very few associations qualify under this section.
- ^c Generally, if a homeowners' association qualifies under IRC Section 501(c)(12), which is rare, it is as a *mutual irrigation* or *mutual water* company.