

## **Revenue Ruling 75-386--Organization Qualifies for Exemption under IRC 501 (c)(4)a**

### Cross Reference Data

#### Topical

Exempt organizations Form 990

#### Citation

IRC Section-501(c)(4)

#### Cases

-Rancho Santa Fe Association v. U.S-A.

-Flat Top Lake Association v. U.S.A.

-Commissioner v. Lake Forest, Inc.

-Lake Petersburg Association v. Commissioner Portland Golf Club v. U.S.

Regulations Section-1.337(d)-4

GCM-34219, 35440, 35570, 38629

### Summary

Rev. Rul. 75-386 addresses an organization that is not a homeowners' association but that provides many of the same types of services as one. It is operated exclusively for the promotion of the social welfare of a community in the areas of crime prevention and housing and community development. Since it promotes the common good and general welfare of the community, the organization is exempt from taxation under IRC Sec. 501 (c)(4).

### Organization Qualifies for Exemption under IRC 501 (c) (4)

Rev. Rul. 75-386, 1975-2 CB 211, (Jan. 1, 1975)

Section 501.-EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC. 26 CFR 1.501(c)(4)-1: Civic organizations and local associations of employees. Social welfare; community organization.-A nonprofit organization that contracts with a private firm to provide the community with security patrols assisted by guard dogs, works to improve public services, housing, and residential parking, and that publishes a newspaper distributed free of charge to all community residents and sponsors a community basketball league, holiday programs, and meetings of community residents is operated exclusively for the promotion of social welfare and qualifies for exemption under section 501 (c)(4) of the Code.

Advice has been requested whether the nonprofit organization described below is exempt from Federal income tax under section 501 (c)(4) of the Internal Revenue Code of 1954.

The organization was formed for the purpose of promoting the common good and general welfare of the residents of a community. In furtherance of this purpose, the organization carries on activities in the general areas of public safety and crime prevention, housing and community development, recreation, and community services.

The organization's primary activity is in the area of public safety and crime prevention. As a major part of its efforts in this area, the organization, with the authorization of the local government, contracts with a private security firm to provide the community with professionally trained security personnel, sometimes assisted by guard dogs, during the evening and early morning hours. In addition, the organization works with the local government to obtain better street lighting and increased police patrols in the community.

The organization's activities in the area of housing and community development include encouraging housing code enforcement, removal of deteriorated structures, and improvement of residential parking. With respect to its recreational activities, the organization holds various holiday programs for local residents and sponsors a community basketball league. Its activities in the community services area include publishing a newspaper that is distributed free of charge to all community residents and that features matters of interest to the community. In addition, the organization sponsors periodic meetings of community residents at which possible solutions to common problems are discussed.

Membership in the organization is open to any interested person or business enterprise in the community but the benefits of its activities are extended to both members and nonmembers on equal terms. Substantially all of its financial support comes from membership dues and its expenses primarily grow out of its guard patrol contracts and newspaper publishing activities.

Section 501 (c)(4) of the Code provides for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1 (a) (2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and, general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

By carrying on the activities described above, including the contracting for security patrols designed to increase public safety and reduce crime in the community, the organization is promoting the common good and the general welfare of the people in the community.

Accordingly, the organization is exempt from Federal income tax under section 501 (c)(4) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501 (c)(4) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.

**Note:**

a The organization addressed in this revenue ruling qualifies for exemption under IRC Sec. 501 (c) (4). It is not a homeowners' association, but it provides many of the same types of services.

Gary Porter, CPA is licensed by the California Board of Accountancy and the Nevada Board of Accountancy. His practice is limited to common interest realty associations consisting of condominium, homeowners, timeshare, cooperative and condo hotel associations. Mr. Porter is the creator and coauthor of PPC's (Practitioners Publishing Company) Guide to Homeowners Associations and Other Common Interest Realty Associations and Homeowners Association Tax Library, in addition to more than 200 articles. Mr. Porter has been quoted or published in The Wall Street Journal, Kiplinger's Personal Finance, Money Magazine, The Practical Accountant, Common Ground, Condo Management, and CAI's The Ledger Quarterly. He has been working with homeowners associations since 1976, and has been a frequent presenter at industry and CPA venues; speaking at events for more than 30 state CPA societies.