501(c)(8) and 501(c)(10) Fraternal Organizations

IRS Exempt Organizations
Today’s Speakers

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501(c)(8) and 501(c)(10) Organizations

Overview:

• Basics of Tax Exemption under 501(c)(8) and 501(c)(10)

• Differences between 501(c)(8) and 501(c)(10) organizations

• Differences between (c)(8)/(c)(10) organizations and other tax-exempt organizations

• Unrelated business income

• The Application Process
ONLINE RESOURCES

www.irs.gov/charities

www.stayexempt.irs.gov/

Publication 557, *Tax-Exempt Status for Your Organization*

Publication 4221-NC, *Compliance Guide for Tax-Exempt Organizations (Other than 501(c)(3) Public Charities and Private Foundations)*

E-mail questions to tege.eo.ceo@irs.gov
Let’s Get Started!

• The basics of 501(c)(8) organizations
501(c)(8) Organizations

- Often referred to as fraternal beneficiary societies, orders, or associations

- Must meet **THREE REQUIREMENTS:**
  1. Have a “fraternal purpose”
  2. Operate under the lodge system
  3. Provide for the payment of life, sick, accident or other benefits to members
“Fraternal purpose”

- Membership is based on a **common tie** or the pursuit of **common goals**
Examples of common tie/goals

- Service in Armed Forces
- Shared hobby
- Similar religious convictions
- Many other examples
Examples of fraternal activities

- Patriotic activities
- Assisting sick/disabled members
- Providing social activities for members
- Providing scholarships
- Operating a bar/restaurant for members
### Lodge system

**Parent** + at least one **subordinate** ("lodge")

- Organizational structure with **local branches** (lodges, chapters, etc.)
- Often have **regular meetings** and a representative form of **government**
Life, sick, or accident benefits

- Must pay life, sick, or accident benefits to members.
- May cover:
  - Personal risk,
  - Property loss, or
  - Both
- Must limit benefits to members and their dependents
- Must offer benefits to most members
501(c)(10) organizations

- Often referred to as domestic fraternal societies or associations
- Must meet *FIVE REQUIREMENTS*:
  1. Have a “fraternal purpose”
  2. Operate under the *lodge system*
  3. Not provide for the payment of life, sick, accident or other benefits to members
  4. Devote its net earnings exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes
  5. Be a domestic organization

(🌟 = Same as 501(c)(8) requirement)
## 501(c)(8) vs. 501(c)(10) organizations

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<tr>
<th>501(c)(8)</th>
<th>501(c)(10)</th>
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<tr>
<td>MUST provide for payment of life, sick, accident, or other benefits to members</td>
<td>MUST NOT provide for payment of life, sick, accident, or other benefits to members</td>
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501(c)(8) vs. 501(c)(10) organizations

Unlike 501(c)(8) organizations, 501(c)(10) organizations must...

• NOT provide life/sick/accident/other benefits to members
• Be organized in the United States (“domestic”)
• Devote net earnings exclusively to fraternal purposes or to purposes exempt under 501(c)(3)
Fraternal vs. veterans’ organizations

- Veterans’ organizations are exempt under section 501(c)(19).
- Fraternal and veterans’ organizations share some common characteristics.
- They may engage in many similar activities.
- Veterans’ organizations do not have to operate under the lodge system.
Fraternal organizations vs. social clubs

• Social clubs are exempt under section 501(c)(7)

• Fraternities/sororities are NOT exempt under 501(c)(8) or (c)(10), but may be exempt under 501(c)(7)

• Social clubs are subject to some additional tax rules/regulations
Deductibility of contributions

- Section 170(c)(4): Contribution to domestic fraternal society may be deductible, but only if used exclusively for religious, charitable, scientific, literary, or educational purposes, or for prevention of cruelty to children/animals

- Donations used for social/recreational/fraternal purposes: NOT tax-deductible!

- Remember to comply with recordkeeping requirements
Unrelated Business Income

Unrelated business activity:
• Trade or business;
• Regularly carried on; and
• Not substantially related to furthering the organization’s exempt purposes

• Income from unrelated business activity is usually taxable (subject to exceptions/exclusions)
• Too much unrelated business activity can endanger exemption
Gaming for members:
• Fraternal in nature
• Furthers exempt purposes

Gaming for general public:
• Does NOT further exempt purposes
• May be subject to unrelated business income tax
• Too much may jeopardize exemption
Activities of fraternal organizations

Activities with special rules:

- Sale of alcohol
  - Consumption on premises vs. off premises
- Sale of goods/services to non-members
- Guests of members
- Rental of facilities
  - Unrelated business income exception for rents from real property?
Political activity

**Lobbying:**
Influencing a legislative body to take a legislative action

Not “fraternal,” but these activities are not prohibited

**Political campaign intervention:**
Participating (directly or indirectly) in a political campaign on behalf of/in opposition to a candidate
How to Apply

- Form 1024 (also complete Schedule E)
- Group exemption
- Pay the user fee
The Application Process

- Acknowledgement Letter
- More info needed? → Assign to specialist
- Cases assigned in order received
- Expedited handling granted in extraordinary circumstances
Our website has sample questions you may be asked during the application process:

- See also: [www.irs.gov/charities](https://www.irs.gov/charities)
- Applying for Tax-Exempt Status → Where’s My Application?
Filing Tips

1. Provide required info about officers/directors
2. Make sure authorized person signs form
3. Submit org’s by-laws
4. Include all necessary financial data
5. Include the month that the org’s annual accounting period ends
6. Attach required schedule (Schedule E)
7. Complete all required pages
8. Fully describe org’s activities
9. Attach copy of organizing document
10. Don’t forget to pay the correct user fee!
Annual Filing Requirement

Avoid Automatic Revocation!

• An organization that fails to file an information return or notice (e.g. Form 990, 990-EZ, or 990-N) for three consecutive years will lose its tax-exempt status

• Don’t let this happen to you

• File your required information return while your application is being processed
Annual Filing Requirement

- Fraternal organizations may file a group return for all subordinates
- Parent must still file a separate return for itself
- See Appendix E of Form 990 Instructions for more information
Self-declaring

• 501(c)(8) and 501(c)(10) organizations are not legally required to apply for tax-exempt status
  • Instead, they may “self-declare”
• Many organizations choose to apply for tax-exempt status for the sake of certainty
• Even self-declarers have annual filing requirements!
Resources

- IRS homepage (www.irs.gov)
- EO Charities & Nonprofits homepage
- A-Z Site Index
- EO Select Check
- Calendar of Events
- EO Update (free e-newsletter)
- StayExempt.irs.gov
Questions?

tege.eo.ceo@irs.gov