



Department of the Treasury  
Internal Revenue Service  
**Tax Exempt and Government Entities**  
PO Box 2508  
Cincinnati, OH 45201

Date: August 25, 2020

Employer ID number:

Form you must file:

Tax years:

Person to contact:

Name:

ID number:

Telephone:

Number: **202047015**

Release Date: 11/20/2020

UIL Number: 501.04-00, 501.04-07

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

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(4). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit [www.irs.gov](http://www.irs.gov).

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Notice 437, Notice of Intention to Disclose, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Notice 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures:

Notice 437

Redacted Letter 4034

Redacted Letter 4038



**Department of the Treasury**  
**Internal Revenue Service**  
P.O. Box 2508  
Cincinnati, OH 45201

**Date:** June 17, 2020

**Employer ID number:**

**Contact person/ID number:**

**Contact telephone number:**

**Contact fax number:**

**Legend:**

B = State  
C = Date  
D = Name  
E = City  
F = Name  
G = Law  
H = Name  
x = Number

**UIL:**

501.04-00  
501.04-07

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

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(4). This letter explains the reasons for our conclusion. Please keep it for your records.

**Issues**

Do you qualify for exemption under IRC Section 501(c)(4)? No, for the reasons stated below.

**Facts**

You were formed in the state of B on C. Your Articles of Incorporation indicate you:

- Are organized exclusively for homeowner's association purposes;
- Have civic and social purposes as those terms are intended in G.
- Are organized to represent the interests of your members.

Your bylaws indicate that your membership is made up of, and exclusive to, lot owners of the D residential subdivision located in E which consists of x garden home style lots. Membership is automatic upon assuming ownership of a lot and this may not be separated from the ownership of a lot.

You further indicated that you were formed to maintain the integrity of D through enforcing the restrictions, rules, covenants, and regulations of the D residential subdivision. You collect annual dues from members to accomplish this.

Your activities consist of maintaining and repairing:

- The common areas of H, including the streets, the detention pond and detention pond area and the storm sewer, together with all structures and improvements.
- All water, sewer, storm drainage and other utility lines in or serving the Common Area (which are not dedicated to general public use);
- The streets situated within H; and
- The perimeter fence and the exterior side of the shrubbery along the perimeter fence.

You also explained that F, the residential developer of D, is the owner of the common area, detention pond, and streets and that only your members and their guests are permitted to use the common areas. D also appoints board members as well as officers and will continue to do so until the conversion date.

You are supported by membership dues of members; expenses are for insurance, repairs, utility expenses for the common areas, landscaping and maintenance. The board may also levy special assessments for capital improvements needed for H.

### **Law**

IRC Section 501(c)(4) provides for the exemption from federal income tax of organizations not organized for profit but operated exclusively for the promotion of social welfare. Further, exemption 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 Section 1.501(c)(4)-1(a)(1) states a civic league or organization may be exempt as an organization described in IRC Section 501(c)(4) if it is not organized or operated for profit and it is operated exclusively for the promotion of social welfare.

Treas. Reg. Section 1.501(c)(4)-1(a)(2)(i) 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 that is operated primarily for the purpose of bringing about civic betterments and social improvements.

Revenue Ruling 74-99, 1974-1 C.B. 131 provides that in order to qualify for exemption under IRC Section 501(c)(4), a homeowners association (1) must serve a “community” which bears a reasonable, recognizable relationship to an area ordinarily identified as governmental, (2) it must not conduct activities directed to the exterior maintenance of private residences, and (3) the common areas or facilities it owns and maintains must be for the use and enjoyment of the general public.

In Rancho Santa Fe Association v. U.S., 84-2 U.S.T.C. 9756 (S.D Cal.1984), the court held that a homeowner’s association representing property owners within an independent community was exempt under IRC Section 501(c)(4) despite closing certain recreational facilities for use by the general public. It was reasoned even though the association served the community that existed within Rancho Santa Fe and the facilities were only open for use by members, the association still served to promote the common good and general welfare of the people of the requisite of the community. The court also determined that the Rancho Santa Fe development was an independent community within the meaning of the statute as it was significant in size and self-contained in

orientation. The court reasoned that Rancho Santa Fe was not the ordinary residential grouping of tract homes but was an independent community separated geographically from the city of San Diego of which Rancho Santa Fe was a sub-part.

In Flat Top Lake Ass'n v. United States, 9180 (1989 4<sup>th</sup> Circuit ) the Court held that a homeowners association did not qualify for exemption under IRC Section 501(c)(4) when it did not benefit a “community” bearing a recognizable relationship to a governmental unit and when its common areas or facilities were not for the use and enjoyment of the general public.

### **Application of law**

You are not as described in IRC Section 501(c)(4) and Treas. Reg. Section 1.501(c)(4)-1(a)(1) because your activities do not primarily promote civic betterment or social welfare; you are primarily operating for the convenience and benefit of your member lot owners and F.

Moreover, you do not meet the provisions of Treas. Reg. Section 1.501(c)(4)-1(a)(2)(i). For example, you collect assessments from member owners to maintain the common area of H, including the streets, the detention pond and detention pond area and the storm sewer, together with all structures. You also maintain and repair the water, sewer, storm drainage and other utility lines in or serving the common area of H. This illustrates you do not primarily operate to promote civic betterment or social welfare within the meaning of IRC Section 501(c)(4) but for the benefit of the member lot owners in D and F.

Contrary to Revenue Ruling 74-99, you do not serve a community that resembles an area that could reasonably be identified as governmental because you are a homeowner’s association of only x lot owners. In addition, your activities of collecting members assessments to pay for needed repairs and the maintenance of the common areas associated with H cannot be considered maintaining common areas for the use and enjoyment of the general public.

You are not like the organization described in the court case Rancho Santa Fe Association v. U.S. You are not a community within the meaning of the statute because you only have x lot owners.

Like the organization in the court case Flat Top Lake Ass'n v. United States, you do not serve a community which bears a reasonable recognizable relationship to an area ordinarily identified as governmental. Your common areas are not for the use and enjoyment of the general public but for your member lot owners and their guests. Therefore, you are not primarily operating for the promotion of social welfare

### **Conclusion**

Based on the information submitted, you are not operated exclusively for exempt purposes within the meaning of IRC Section 501(c)(4) of the Code. Rather, you are organized and operated primarily for the convenience of your member lot owners as well as the residential developer, F, and do not promote the social welfare of the community as a whole. Accordingly, you do not qualify for exemption under Section 501(c)(4).

### **If you agree**

If you agree with our proposed adverse determination, you don’t need to do anything. If we don’t hear from you within 30 days, we’ll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

**If you don't agree**

You have a right to protest if you don't agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

**For an officer, director, trustee, or other official who is authorized to sign for the organization:**

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, Power of Attorney and Declaration of Representative, with us if they haven't already done so. You can find more information about representation in Publication 947, Practice Before the IRS and Power of Attorney.

We'll review your protest statement and decide if you gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Decision on Tax-Exempt Status.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

**Where to send your protest**

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service  
EO Determinations Quality Assurance  
Mail Stop 6403  
P.O. Box 2508  
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service  
EO Determinations Quality Assurance  
550 Main Street, Mail Stop 6403  
Cincinnati, OH 45202

You can also fax your protest and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that they received it.

You can get the forms and publications mentioned in this letter by visiting our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676). If you have questions, you can contact the person listed at the top of this letter.

**Contacting the Taxpayer Advocate Service**

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or if you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit [www.taxpayeradvocate.irs.gov](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements