

A war veterans' organization does not qualify for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 where it is primarily engaged in renting a commercial building and operating a public banquet and meeting hall having bar and dining facilities.

Advice has been requested whether a war veterans' organization organized and operated as described below qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization is composed of war veterans of the armed services of the United States formed to conduct veterans' programs and other benevolent, welfare, patriotic, and civic activities.

The organization owns two buildings. One is an office building rented to commercial tenants. The other contains meeting rooms and club facilities for the organization. However, the larger part of the latter building is comprised of a large hall available for rental by the general public. By the use of movable partitions, five meeting rooms can be used simultaneously. Food and bar catering services are provided. Two ultramodern kitchens are used for serving meals. These facilities are in daily use by nonmember groups. The organization employs a manager, assistant manager, and a full time staff to operate its dining room, bar facilities, and the hall. Extra kitchen help, waiters, and bartenders are frequently hired on a part-time basis. Income from rental and catering services constitutes the major portion of the organization's gross receipts.

Although the organization carries on veterans' programs and other benevolent, welfare, patriotic, and civic activities, it has been determined that the organization's business activities relating to the rental of the office building and meeting room space and the food and bar catering services exceeded all its other 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 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 is not operated primarily for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations which are operated for profit.

Inasmuch as the organization's social welfare program is not its primary activity, the organization is not exempt from Federal income tax under section 501(c)(4) of the Code. Compare Rev. Rul. 68-45, page 259, this Bulletin.