24 T.C. 891 (1955)

To qualify for tax exemption under the Internal Revenue Code, organizations must meet the specific criteria for the exemption claimed, and organizations cannot be classified as fraternal if the primary bond between members is merely their association with the organization itself. Additionally, social clubs must be organized and operated exclusively for non-profit purposes.

Summary

The United States Tax Court considered whether the Polish Army Veterans Post 147 and its Home Association were exempt from federal income tax. The Post sought exemption as a fraternal beneficiary society and a social club, while the Home Association claimed exemption as a social club. The court denied both claims, holding that the Post did not meet the requirements for a fraternal organization because its membership was overwhelmingly social rather than based on shared military service and that the payment of benefits to a subset of members prevented the Post from being considered a social club. The Home Association was deemed ineligible for social club exemption because its primary activities, renting property and operating coin machines, were conducted for profit rather than for pleasure, recreation, or social purposes.

Facts

Polish Army Veterans Post 147 (the Post) was a local post of the Polish Army Veterans Association of America, Inc. The Post had three classes of members: active, social, and honorary. Active members were veterans who served in the Polish Armed Forces, and social members comprised the vast majority of the Post's membership. The Post provided sick, disability, and death benefits only to its active members. The Post operated a bar, which was its primary source of income. Polish Army Veterans Post 147 Home Association (the Home Association) was a separate corporation formed by active members of the Post to acquire property for the Post. The Home Association's primary income sources were rents from the Post and coin-operated machines.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the income and excess profits taxes of the Post and the Home Association, and assessed additions to tax. The petitioners challenged these determinations in the United States Tax Court.

Issue(s)

1. Whether the Post was exempt from taxation as a fraternal beneficiary society under section 101(3) of the Internal Revenue Code of 1939.

2. Whether the Post was exempt from taxation as a social club under section 101(9)

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of the Internal Revenue Code of 1939.

3. Whether the Home Association was exempt from taxation as a social club under section 101(9) of the Internal Revenue Code of 1939.

4. Whether the Commissioner erred in determining the amount of income received by the petitioners.

Holding

1. No, because the Post did not qualify as a fraternal beneficiary society.

2. No, because the Post was not a social club.

3. No, because the Home Association was not a social club.

4. No, because the petitioners failed to prove the Commissioner's determination of income was erroneous.

Court's Reasoning

The court cited the Internal Revenue Code of 1939, section 101, which outlines the tax-exempt organizations. The court stated that the organizations must

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