Twin Oaks Community, Inc. v. Commissioner, 87 T. C. 1233 (1986)

A religious or apostolic organization has a common or community treasury under Section 501(d) if it maintains a communal fund from which all members are equally supported, regardless of whether members must divest themselves of personal property.

Summary

Twin Oaks Community, Inc. , a religious or apostolic organization, sought tax-exempt status under Section 501(d), which requires a common or community treasury. The IRS argued that to qualify, members must take vows of poverty and contribute all property to the organization. The Tax Court rejected this, holding that the terms "common treasury" and "community treasury" refer to the organization's communal operation and not to members' personal property ownership. Twin Oaks was deemed to have a common treasury as it pooled all internally generated income into a communal fund for member support, satisfying Section 501(d) requirements.

Facts

Twin Oaks Community, Inc. , a non-stock corporation in Virginia, operated as a religious or apostolic organization based on communal living inspired by B. F. Skinner's "Walden Two. " It engaged in various businesses, with all earnings deposited into a community treasury used to support members' needs. Members were not required to take vows of poverty or contribute all personal property upon joining. Instead, they could retain certain personal effects and had to donate or loan larger assets to the community. Members reported their pro rata share of the organization's income on their tax returns as required by Section 501(d).

Procedural History

The IRS determined deficiencies in Twin Oaks' federal income tax for the years 1977-1980, asserting that Twin Oaks did not qualify for exemption under Section 501(d) due to a lack of a common treasury. Twin Oaks petitioned the U. S. Tax Court, which held that Twin Oaks did have a common treasury and was thus exempt under Section 501(d).

Issue(s)

1. Whether the terms "common treasury" or "community treasury" in Section 501(d) require that members of a religious or apostolic organization must take vows of poverty and irrevocably contribute all of their property to the organization upon becoming members.

Holding

1. No, because the terms "common treasury" and "community treasury" refer to the

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organization’s communal operation and the pooling of internally generated income into a communal fund for member support, not to the personal property ownership of members.

Court’s Reasoning

The Tax Court interpreted the terms “common treasury” and “community treasury” in Section 501(d) by analyzing the statute’s language and legislative history. The court found no statutory or regulatory support for the IRS’s position that members must take vows of poverty and divest all property. The court noted that the legislative history, though sparse, suggested the provision was intended to apply to organizations like the Shakers, who did not require all members to divest all property. The court concluded that a common or community treasury exists when an organization pools all internally generated income into a communal fund used for member support, with members having equal interests but no right to claim title to any part thereof. The court emphasized that Section 501(d) focuses on the organization’s income, not members’ personal property ownership, and that Twin Oaks satisfied these requirements.

Practical Implications

This decision clarifies that religious or apostolic organizations seeking exemption under Section 501(d) need not require members to take vows of poverty or divest all personal property. Instead, they must maintain a communal fund from which all members are equally supported. This ruling affects how similar organizations should structure their operations to qualify for tax-exempt status. It also impacts the IRS’s ability to challenge the exemption of such organizations based on members’ personal property ownership. The decision has broader implications for communal living arrangements and the tax treatment of income in such settings, reinforcing the importance of clear documentation and member reporting of pro rata shares of organizational income.

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