

FEDERAL TAXATION

Exempt Organizations—§ 7905

The rule against improper accumulation, use, or investment of income doesn't apply to either of these two types of employee trusts.⁵

1. Code Sec. 503(a)(1)(B) and (C).
2. Code Sec. 501(c)(17).
3. Code Sec. 401(a).
4. Code Sec. 503(b).
5. Code Sec. 504.

§ 7904. Other exempt organizations. The additional organizations listed below, which are exempt from income tax, aren't subject to the rules against engaging in prohibited transactions or improper accumulation, use or investment of income. These organizations are generally of such a character that it isn't ordinarily possible for them to engage in those practices. This group of exempt organizations includes:

- ... Religious organizations other than trusts.¹
- ... Religious or apostolic associations or corporations that have a common or community treasury and are engaged in business for the common benefit of the members *but only if* the members include in their gross incomes their pro rata share of the taxable income. The income must be reported by the members whether or not it is distributed, and it is treated as a dividend received.²
- ... Educational organizations with regular faculty, curriculum, and enrolled student body in attendance at a regular place.³
- ... Organizations normally receiving from the U.S. or the general public, a substantial portion of their support (other than income from their exempt activities).⁴
- ... Organizations operated, supervised, controlled, or principally supported by an exempt religious organization that isn't a trust.⁵
- ... Organizations the principal purpose of which is to provide medical or hospital care, medical education, or medical or agricultural research.⁶
- ... U.S. corporate instrumentalities organized under Act of Congress granting income tax exemption.⁷
- ... Corporations merely holding title to property and collecting and turning over income, less expenses, to an exempt organization.⁸
- ... Nonprofit civic organizations operated exclusively for social welfare.⁹
- ... Labor, agricultural, or horticultural organizations.¹⁰
- ... Chambers of commerce, business leagues, real estate boards, or boards of trade not organized for profit or private benefit.¹¹
- ... Social and athletic clubs not organized for profit or for the benefit of private shareholders.¹²

... Fraternal beneficiary societies, orders, or associations operating under the lodge system and providing for benefit payments to members and their dependents.¹³

... Local employees' associations whose net earnings are used solely for charitable, educational, or recreational purposes.¹⁴

... Voluntary employees' beneficiary associations providing for benefit payments to members and their dependents provided 85% or more of the income is collected from members and the employer.¹⁵

... Voluntary employees' beneficiary associations limited to U.S. government officers and employees.¹⁶

... Local teachers' retirement fund associations.¹⁷

... Local benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies or like organizations *but only if* 85% or more of the income is collected from members.¹⁸

... Nonprofit cemetery companies and burial corporations.¹⁹

... Credit unions and certain nonprofit corporations organized before Sept. 1, '57 to provide reserve funds and insurance of shares or deposits in building and loan associations, cooperative banks, and mutual savings banks.²⁰

... Mutual insurance companies other than life or marine whose premium and investment income (other than capital gains) doesn't exceed \$150,000.²¹

... Farmers cooperatives meeting certain qualifications.²² These organizations are only technically exempt.²³ For circumstances in which they are taxed, see § 7627 *et seq.*

1. Code Sec. 503(b)(1).
2. Code Sec. 501(d).
3. Code Sec. 503(b)(2).
4. Code Sec. 503(b)(3).
5. Code Sec. 503(b)(4).
6. Code Sec. 503(b)(5).
7. Code Sec. 501(c)(1).
8. Code Sec. 501(c)(2).
9. Code Sec. 501(c)(4).
10. Code Sec. 501(c)(5).
11. Code Sec. 501(c)(6).
12. Code Sec. 501(c)(7).
13. Code Sec. 501(c)(8).
14. Code Sec. 501(c)(9).
15. Code Sec. 501(c)(10).
16. Code Sec. 501(c)(11).
17. Code Sec. 501(c)(12).
18. Code Sec. 501(c)(13).
19. Code Sec. 501(c)(14).
20. Code Sec. 501(c)(15).
21. Code Sec. 501(c)(16).
22. Code Sec. 501(c)(16).
23. Code Sec. 521.

§ 7905. Exempt organizations taxable on unrealized business income. Some, but not all, exempt organizations are nevertheless taxable on their unrelated business income. The following exempt organizations are so taxable:¹