



# The International Association of Lions Clubs

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Amy J. Peña  
GENERAL COUNSEL

October 18, 2016

Re: Public Comment – “Rev. Proc. 2016-41 should not apply to 501(c)(4) organizations filing under a group exemption

Dear Lions,

In response to the Internal Revenue Service (IRS) new regulation requiring all newly-formed 501(c)(4) organizations to notify the IRS of their intention to operate as a 501(c)(4) by filing **Form 8976**, as stated in Internal Revenue Code 26 CFR 1.506, following is the Lions Clubs International’s public comment provided to the IRS on October 11, 2016. Please note the following public comment provides Lions Clubs International’s position explaining the process duplicitous.

Please be advised that until Lions Clubs International is notified by the IRS regarding the public comment and their decision, newly chartered clubs must continue to file form 8976 within 60 days of the charter date.

Should you have any questions related to this topic, please contact the Legal Division.

Very Truly Yours,

A handwritten signature in black ink that reads 'Amy J. Peña'.

Amy J. Peña  
General Counsel

AJP:hq

Encl: Letter – Copilevitz & Canter, Public Comment – “Rev. Proc. 2016-41 should not apply to 501(c)(4) organizations filing under a group exemption



Via E-mail

October 10, 2016

Internal Revenue Service  
Attn: CC:PA:LPD:PR  
(Rev. Proc. 2016-41) Room 5203  
P.O. Box 7604  
Ben Franklin Station  
Washington, DC 20044

Re: Public Comment – “Rev. Proc. 2016-41 should not apply to 501(c)(4) organizations filing under a group exemption”

Dear Sir/Madam:

We submit this public comment on behalf of Lions Clubs International, which is the largest social welfare service club organization in the world. Lions Clubs International has 1.35 million members in more than 46,000 clubs organized to improve our communities, meet humanitarian needs and encourage peace. Lions Clubs International is a not-for-profit organization organized under the laws of Illinois and recognized as a group exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code.

More specifically, the Internal Revenue Service has recognized the Lions Clubs International and all of its subordinate chapters or “clubs” under a group exemption. The IRS often recognizes a group of organizations who are affiliated with one central organization and under its general supervision or control under a group exemption to avoid the need for each organization to apply for exemption and file annual returns individually. “A group exemption has the same effect as an individual exemption letter except that it applies to more than one organization.”<sup>1</sup> Subordinates properly included under a formally recognized Section 501(c)(4) group exemption should be excluded from the requirement of independently filing Form 9976. We believe the final Rev. Proc. should specifically address that exclusion.

**I. The information required in Form 9976 under Rev. Proc. 2016-41 is duplicative of the information provided annually under a group exemption.**

Group exemptions relieve administrative burdens for both the IRS and the group of related, qualifying organizations. Under a group exemption, the IRS does not have to

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<sup>1</sup> Internal Revenue Service, Tax Exempt & Gov’t Entities Div., “Group Exemptions,” Pub. 4573 (12-2007).

review and process separate applications for exemption for tens of thousands of subordinate clubs. Likewise, affiliated chapters do not have to file an application for exemption and subsequent annual information returns for each of tens of thousands of subordinate clubs. Rather, the central organization – the Lions Clubs International – files one application for exemption and annual information return on behalf of all of its tens of thousands of subordinate clubs. Accordingly, the tens of thousands of state and local chapters or clubs are covered under Lions Club International's group exemption.

**A. Annual reports under group exemptions**

A parent organization, such as Lions Clubs International, requesting a group exemption cannot self-declare Section 501(c)(4) group exemption status, nor can its subordinates self-declare their inclusion in a group exemption. In addition to the initial application for group exemption, Form 1024, and the subsequent annual information returns, Form 990, a central organization is responsible for the following under a group exemption: (1) ensuring that its current subordinates continue to qualify to be exempt; (2) verifying that any new subordinates are exempt; and (3) updating the IRS on an annual basis of new subordinates, subordinates no longer to be included, and subordinates that have changed their names or addresses.<sup>2</sup> An annual update includes the following:

- a. Information about changes in purposes, character, or method of operation of subordinates included in the group exemption letter.
- b. Lists of :
  - i. subordinates that have changed their names or addresses during the year;
  - ii. subordinates no longer to be included in the group exemption letter because they have ceased to exist, disaffiliated, or withdrawn their authorization to the central organization; and
  - iii. subordinates to be added to the group exemption letter because they are newly organized or affiliated or have newly authorized the central organization to include them. Each list must show the *names, mailing address (including zip codes), actual address if different, and employer identification numbers of the affected subordinates*. An annotated directory of subordinates will not be accepted for this purpose. If none of these changes occurred, the central organization must submit a statement to that effect.

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<sup>2</sup> *Id.* at 3.

- c. *The same information about new subordinates that was required in the initial request. If a new subordinate does not differ in any material respects from the subordinates included in the original request, however, a statement to this effect may be submitted in lieu of detailed information.*<sup>3</sup>

The rules for applying for and maintaining a group exemption are set forth in Rev. Proc. 80-27, 1980-1 C.B. 677.

## **B. Form 8976 notification filing under Rev. Proc. 2016-41**

Section 405(a) of the recently enacted PATH Act added section 506 to the Internal Revenue Code. Section 506 requires a newly formed organization or chapter of an umbrella organization to notify the IRS of its intent to operate as a section 501(c)(4) organization. The notice of intent to operate as a 501(c)(4) is to be filed on Form 8976, *Notice of Intent to Operate Under Section 501(c)(4)*, within 60 days of establishing the chapter or club. The Act imposes filing fees and penalties for failure to comply with the new filing requirement.

Section 506(b) provides that the notification must include the very same information required in the annual reports of 501(c)(4) organizations operating under a group exemption: (1) *The name, address, and taxpayer identification number of the organization*; (2) *the date on which, and the state under the laws of which, the organization was organized*; and (3) *a statement of the purpose of the organization*. Section 506(c) requires the Secretary to send the organization an acknowledgment of the receipt of its notification within 60 days. Section 506(d) permits the Secretary to extend the 60-day notification period for reasonable cause.

## **II. The administrative burden to both the IRS and subordinate 501(c)(4) organizations required to file Form 8976 under Rev. Proc. 2016-41 outweighs any value to the IRS in receiving the same, duplicative information twice annually from 501(c)(4) organizations recognized under a group exemption.**

Hundreds of thousands of organizations have been recognized as exempt under 501(c)(4) pursuant to a group exemption over the years.<sup>4</sup> Revenue Procedure 2016-41 indisputably duplicates the notification requirement inherent in existing annual report requirements applicable to 501(c)(4) organizations recognized under a group exemption. Such duplication will result in tens of thousands of redundant Form 8976 and annual report filings per year. And all of this at the expense of the not-for-profit organizations and American taxpayers.

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<sup>3</sup> *Id.*

<sup>4</sup> Advisory Committee on Tax Exempt and Government Entities (ACT), “Exempt Organizations: Group Exemptions-Creating a Higher Degree of Transparency, Accountability, and Responsibility” 1 (June 15, 2011), available at [https://www.irs.gov/pub/irs-tege/ACT\\_Group\\_Ruling\\_Rpt\\_061511.pdf](https://www.irs.gov/pub/irs-tege/ACT_Group_Ruling_Rpt_061511.pdf).



The very same information required by Form 8976 pursuant to Rev. Proc. 2016-41 is required of 501(c)(4) organizations under a group exemption. Rev. Proc. 2016-41 purports to require the Lions Clubs International or a new subordinate organization to report the exact same information in Form 8976 within 60 days of a new chapter or club's creation as it is required to report in its annual report filing that same year. *See supra*, fn.1 (requiring annually information on the number of new subordinates established that year, the number of subordinates that closed that year, and detailed information of each new subordinate). Thus, the annual report required under the group exemption would provide the very same information (if not more) than that which is proposed to be required on Form 8976 under Rev. Proc. 2016-41. Accordingly, Form 8976 is not necessary; it is duplicative; and it is overly burdensome for the tens of thousands of organizations recognized as exempt under I.R.C. § 501(c)(4) pursuant to a group exemption every year.

The administrative burden to the IRS would be significant, as well. If Rev. Proc. 2016-41 requires new subordinate chapters of a central parent organization recognized under Section 501(c)(4) pursuant to a group exemption to file a Form 8976 or equivalent, then the IRS is effectively requiring the same information to be filed at least twice annually – (1) first a Form 8976 to be filed by the new chapter or club to be formed under the central organization's control and oversight within 60 days of formation and (2) an annual report containing the very same information to be filed by the central organization annually in addition to (3) the same identification of subordinate 501(c)(4) chapters or clubs under the group exemption in the annual IRS Form 990. This unjustifiably increases review and processing costs to the IRS to be paid by American taxpayers.

Moreover, the unreasonable administrative burden placed on the reporting organizations outweighs any value to the IRS in receiving duplicative information on Form 8976, even if it receives that notification several months sooner than it might receive the very same information in the Lions Club International's annual report filing or IRS Form 990 under its group exemption. This unnecessary and duplicative administrative burden also carries with it significant filing fees and the risk of penalties for state or local subordinate chapters or clubs for failure to file the duplicative information that its affiliated parent – reflecting the same or similar purpose and organizational information – will be filing that same year.

There appears to be no specific discussion of the group exemption context leading up to the creation of Rev. Proc. 2016-41. The lack of any specific reference to group exemptions seems logical given that subordinate organizations may not (and could not previously) self-declare Section 501(c)(4) group exemption inclusion or status. We don't believe the group exemption context was contemplated or considered given the clear purpose of the Rev. Proc.

It is abundantly clear that application of Rev. Proc. 2016-14 to 501(c)(4) organizations recognized under a group exemption creates an unnecessary expense, duplicative informational filings, and significant administrative burden for both the IRS and the reporting organizations. The administrative burden of producing duplicative information that is wholly unnecessary far outweighs any benefit such information would have to the

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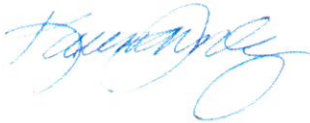
IRS. This is so especially in light of the kinds of organizations practically affected by this onerous filing requirement and recognized under group exemptions. The 501(c)(4) organizations that would be overly burdened by Rev. Proc. 2016-41's notification requirement are not political advocacy groups; rather, they are national and international humanitarian organizations such as the Lions Club International, Rotary International, and Civitan International, each with tens of thousands of state and local chapters or clubs worldwide working every day to improve our communities.

### **III. Conclusion**

Based on the foregoing, Rev. Proc. 2016-41 should not apply to new subordinate chapters or clubs established under 501(c)(4) and recognized under a group exemption. On behalf of Lions Club International, we respectfully request that the Service exclude 501(c)(4) organizations that are established or wish to be included under a group exemption from the reporting requirements of Rev. Proc. 2016-41.

If you have any questions or wish to discuss this matter, please contact the undersigned directly.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Karen Donnelly", is written over a light blue circular stamp.

Karen Donnelly  
Greg Lam  
For the Firm

cc: Amy Pena, General Counsel, Lions Clubs International