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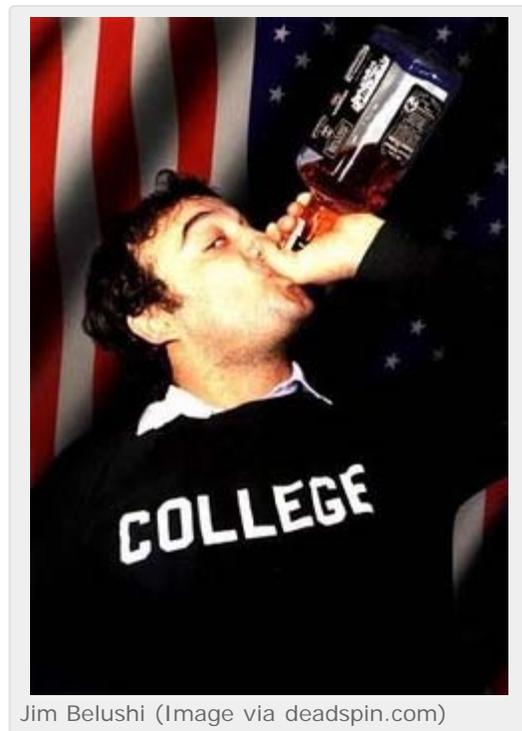
College Frats: Should Animal House Be Tax-Exempt?

The [Animal House](#) image some fraternities have—and some others may want—should tell you that college fraternities—or sororities for that matter—are rarely known for their tax compliance. In fact, you’ve probably never considered taxes and these bastions of educational socializing in the same breath. But even these organizations need to know *something* about taxes.

That’s one take-away from a [recent IRS ruling](#) in which the IRS came down hard on the Phi Gamma Delta chapter of Bucknell University and *revoked* its tax-exempt status. See

[For Frat Foundation, Housing Isn’t Enough](#). The fraternity should begin sprucing up their financial records and image for the unhappy conversion from tax-exempt to taxable.

According to its charter, the fraternity was organized *exclusively* for charitable and educational purposes. That included providing lodging, dining, library and other educational facilities for students. The fraternity



Jim Belushi (Image via deadspin.com)

receives housing fees from students that defray its expenses, and it also accepts donations from parents, alumni, and more.

Not surprisingly, the big expense is the chapter house, used in all the ways you might expect. Of course, fraternity members are given preference over other students in all fraternity facilities. In a kind of keeping up with the Jones' competition, a key goal of the fraternity is to improve the facilities for members.

This, it seems, is the tax problem. The IRS audited and concluded that the primary activity of the fraternity is operating and maintaining the chapter house. The house is next to the university and is leased to members of the local chapter and to other full-time students.

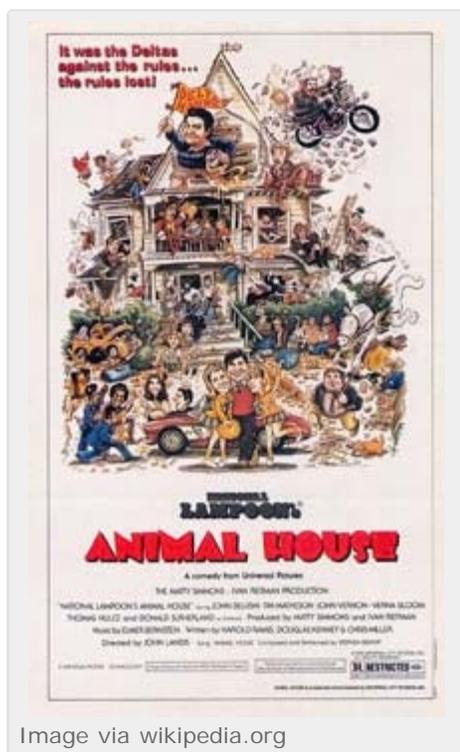


Image via wikipedia.org

The fraternity argued that its purpose in operating the chapter house is “to benefit the public in the education of the students.” Maybe, but the IRS concluded this is not primarily an educational institution. In fact, the IRS has seen this problem before and dealt with it in the same way.

The court cases on point say that providing living and dining facilities just isn't a tax-exempt purpose. Indeed, the IRS has long considered college fraternities **not** to qualify as tax-exempt educational organizations. Mind you, there are many **other** types of tax-exempt organizations.

In fact, there might be some types of non-profits that the fraternity would fit. The round peg in a square hole of a purely tax-free [Section 501\(c\)\(3\)](#) charity? Not so much. The fraternity is **not** a truly public charity in the same way as say the [American Red Cross](#). That seems clear.

The ruling doesn't address those other possibilities, but does say that the fraternity in question is claiming that it should qualify for relief—a kind

of tax-get-out-of-jail-free-card—based on its good faith belief that it qualified.

For more, see:

[IRC 501\(c\)\(8\) Fraternal Beneficiary Societies](#)

[Internal Revenue Manual – 7.25.8 Fraternal Beneficiary Societies](#)

[New IRS Requirements Will Impact All Fraternities & Sororities](#)

[Think You're A Slave To Taxes? U.S. Slavery Museum Shackled By IRS!](#)

[IRS vs. Scientology: Here We Go Again](#)

[IRS Stirs The Kabbalah Pot](#)

[Saving Taxes By Giving To Charity](#)

[Giving To Charity? Great. Staying Off IRS Radar? Priceless.](#)

[Getting Taxed Despite Giving To Charity](#)

[Christian Crusade For Tax Benefits](#)

[A Non-Whitney Grammy Tale of Clergy Tax Greed](#)

[Don't Like Taxes? Form A Church](#)

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