Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:EEE:EB:QP1
PLR-118921-24

Date:
May 22, 2025

Legend:

Employer =
Plan =
Date 1 =
Date 2 =
Date 3 =
Amount X =

Dear :

This is in response to a request for a letter ruling under section 4980(c)(1)(A) of the Internal Revenue Code (Code), submitted on your behalf by your authorized representative in correspondence dated October 11, 2024, and updated by correspondence dated December 30, 2024, and April 29, 2025.

The following facts and representations have been submitted under penalties of perjury in support of the ruling requested.

Employer represents that it is an entity that is tax-exempt under section 501(a) of the Internal Revenue Code as a social club described in section 501(c)(7). On Date 1, Employer established the Plan, a single-employer defined benefit pension plan for the benefit of its employees. Employer represents that no other employers have ever participated in the Plan.

On Date 2, Employer took action to terminate the Plan, effective Date 3. After all the benefit liabilities in the Plan are satisfied, approximately Amount X will remain in the Plan trust (the “Excess Amount”). Employer believes that the Excess Amount was the result of unexpected market performance and unexpected interest rates. The Plan provides that, upon termination of the Plan, if all liabilities with respect to participants

and beneficiaries have been satisfied and there remains a balance in the trust, such balance shall be returned to the Employer.

Employer represents that it incurs unrelated business taxable income (UBTI) within the meaning of section 512(a)(3)(A) from time to time, such as from nonmember use of the club's facilities.

Employer represents that the Excess Amount will be included in its income as UBTI under section 512(a)(3)(A) for the taxable year in which it receives the Excess Amount.

Employer further represents that, if its financial performance during the taxable year in which it receives the Excess Amount is consistent with historical operations, as anticipated, the Excess Amount, together with other non-exempt function income, will be within applicable limits for Employer to retain its exemption under section 501(a) as an organization described in section 501(c)(7).

RULING REQUESTED:

Based on the above facts and representations, you request the following ruling:

Because the Plan is not a qualified plan within the meaning of section 4980(c)(1)(A), the return of the Excess Amount to Employer will not be an employer reversion from a qualified plan to which the excise tax under section 4980(a) applies.

LAW:

Section 4980(a) provides for an excise tax on the amount of any reversion of plan assets to the employer from a qualified plan. Section 4980(b) provides that the tax imposed by section 4980(a) shall be paid by the employer maintaining the plan.

Section 4980(c)(1)(A) provides, in part, that the term "qualified plan" means any plan meeting the requirements of section 401(a) or section 403(a) other than a plan maintained by an employer if such employer has, at all times, been exempt from tax under subtitle A of the Code. Such term shall include any plan which, at any time, has been determined by the Secretary of the Treasury to be a qualified plan.

Section 4980(c)(2)(A) defines the term "employer reversion" to mean the amount of cash and the fair market value of other property received (directly or indirectly) by an employer from the qualified plan.

Section 501(a) provides that an organization described in subsection (c), (d), or section 401(a) is exempt from tax under subtitle A unless exemption is denied under section 502 or section 503.

Section 501(b) adds that an organization exempt from tax under section 501(a) shall be subject to tax to the extent provided in parts II (private foundations), Ill (taxation of business income of certain exempt organizations), and VI (political organizations) of subchapter F, but notwithstanding parts II, III, and VI of subchapter F, shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

Part Ill of Subchapter F contains Sections 511 through 515, which impose an income tax on the unrelated business activities of organizations exempt from taxation.

In Research Corporation v. Commissioner of Internal Revenue, 138 T.C. 192 (2012), the Tax Court held that an organization exempt from tax under section 501(a) is treated for purposes of section 4980(c)(1)(A) as an organization that has, at all times, been exempt from tax under subtitle A, even if the organization has paid income taxes attributable to UBTI under section 511(a).

ANALYSIS:

Employer is a section 501(c)(7) social club exempt from tax under section 501(a). Employer incurs UBTI from time to time, such as from nonmember use of the club's facilities.

In accordance with Research Corporation, the existence of UBTI does not preclude Employer from being treated as having been, at all times, exempt from tax under subtitle A for purposes of section 4980(c)(1)(A). Therefore, the Plan is not a qualified plan within the meaning of section 4980(c)(1), and the return to Employer of the Excess Amount is not subject to the excise tax under section 4980(a).

RULING:

Because the Plan is not a qualified plan within the meaning of section 4980(c)(1)(A), the return of the Excess Amount to Employer will not be an employer reversion from a qualified plan to which the excise tax under section 4980(a) applies.

This letter assumes that, at all relevant times, the Plan has satisfied the requirements of the Code and Employer retains its exemption under section 501(a) as an organization described in section 501(c)(7).

The ruling contained in this letter is based upon information and representations submitted by Employer and accompanied by a penalties of perjury statement executed by Employer, as specified in Rev. Proc. 2025-1, 2025-1 I.R.B. 1, § 7.01(16)(b). This office has not verified any of the material submitted in support of the request for ruling, and such material is subject to verification on examination. The Associate office will revoke or modify a letter ruling and apply the revocation retroactively if there has been a misstatement or omission of controlling facts; the facts at the time of the transaction are

materially different from the controlling facts on which the ruling was based; or, in the case of a transaction involving a continuing action or series of actions, the controlling facts change during the course of the transaction. See Rev. Proc. 2025-1, § 11.05.

Except as expressly provided above, no opinion is expressed or implied concerning the federal income tax consequences of any aspects of any transaction or item of income described in this letter ruling. Nor is any opinion expressed or implied concerning Employer's exempt status under section 501(a) as an organization described in section 501(c)(7) for any taxable year.

This letter is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

_____

Lauson Green
Special Counsel
Office of the Associate Chief Counsel
(Employee Benefits, Exempt Organizations, and Employment Taxes)

cc: