



**House
Legislative
Analysis
Section**

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**REVISE DEFINITION OF FRATERNAL
ORGANIZATION**

**House Bill 5271 as introduced
First Analysis (11-1-95)**

**Sponsor: Rep. Susan Grimes Munsell
Committee: Regulatory Affairs**

THE APPARENT PROBLEM:

Fraternal organizations such as the Loyal Order of Moose, the Elks, and the Eagles are nonprofit organizations well known for their acts on behalf of charities and community needs. Last year, Loyal Order of Moose chapters nationally raised over \$32 million for service projects such as local anti-drug programs and a donation of \$1 million to the fund to rebuild Yellowstone National Park. Though designated as nonprofit organizations in statute, the definition of fraternal organizations contained in Michigan law states that these organizations "exist for the common business, brotherhood, or other interests of its members" (emphasis added). The inclusion of the word "business" has proved troublesome for many fraternal organizations in Michigan due to its general connotation with generating money for profit. Therefore, many chapters of various fraternal organizations state-wide have received undue scrutiny from the Internal Revenue Service. At the request of the Michigan Moose Association, legislation has been proposed to replace the word "business" with a word that would more accurately describe the function of fraternal organizations.

THE CONTENT OF THE BILL:

The Traxler-McCauley-Law-Bowman Bingo Act regulates bingo, millionaire parties, and other charitable gaming activities conducted by qualified organizations such as nonprofit religious, educational, service, senior citizens, veterans, and fraternal organizations. The bill would amend the act to revise the definition of fraternal organization. Currently, fraternal organization is defined as a nonprofit organization within the state that is not a college fraternity or sorority, and "that is a branch, lodge, or chapter of a national or state organization; and that exists for the common business, brotherhood, or other interests of its members". The bill would delete the word "business" and add the word "purpose," to read "common purpose, brotherhood, or other interests of its members".

MCL 432.103

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bill would have no fiscal impact on state or local government. (10-23-95)

ARGUMENTS:

For:

The use of the word "business" in the definition of fraternal organizations contained in Michigan statute is misleading and has acted as a "flag" for Internal Revenue Service (IRS) audits for many fraternal organizations. In determining nonprofit eligibility, the IRS looks at such things as the nature of the organization, why it exists, and especially state laws to determine under what authority it is operating. In general usage, "business" usually connotes for-profit enterprises. Since Michigan law currently defines fraternal organizations as existing for the common "business" of their members, fraternal organizations receive undue scrutiny from the IRS and must prove over and over that they are in fact nonprofit organizations. By replacing "business" with "purpose", the definition would be clearer and more accurate and should therefore satisfy the IRS's eligibility criteria for nonprofit organizations.

POSITIONS:

The Bureau of State Lottery supports the bill. (10-27-95)

The Michigan Moose Association supports the bill. (10-25-95)

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

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