



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Attn: Mandatory Review, MC 4920 DAL
1100 Commerce St.
Dallas, TX 75242

501-07-00

Date: November 18, 2009

Release Number: **201013055**

Release Date: 4/2/10

Name
Address

Employer Identification Number:
EIN

Person to Contact/ID Number:

Contact Numbers:

Voice:

Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear

In a determination letter dated x, xxxx you were held to be exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(7) of the Code. Accordingly, your exemption from Federal income tax is revoked effective xx xx, xxxx. This is a final adverse determination letter with regard to your status under section 501(c)(7) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. On xx xx, xxxx, you signed Form 6018-A, Consent to Proposed Action, agreeing to the revocation of your exempt status under section 501(c)(7) of the Code.

You have filed taxable returns on Form[s] 1120, *US Corporation Income Tax Return*, for the year[s] ended xx xx, xxxx, xxxx, xxxx, xxxx with us. For future periods, you are required to file Form 1120 with the appropriate service center indicated in the instructions for the return.

You have the right to contact the Office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal Appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that

a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free, 1-877-777-4778, and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

Sunita Lough
Director, EO Examinations

Enclosures:
Pub 892
Pub 3498

Form 886-A (Rev. January 1994)	EXPLANATION OF ITEMS	Schedule number or exhibit
Name of taxpayer EO	Tax Identification Number	Year/Period ended

Does an organization that receives more than 15% of its income from the general public on a recurring basis continue to qualify as an organization described in 501(c)(7) of the Internal Revenue Code?

Facts:

The EO is organized and operating as an organization described in Internal Revenue Code 501(c)(7) to provide social, recreational and other activities to its members. The benefits provided to the members include: but is not limited to the following activities: restaurant, bar, comedy club reciprocal golf agreements with other club, banquet hall, meeting room as well as a dance hall.

While reviewing the general ledger, calendar of events, wedding contracts as well as other internal documents provided by the EO it has been noted that the EO is open to the general public. Based on the EO conducting a three year analysis, it has been noted that the organization received 55% 58% and 61% respectively during tax years ending xxx xx, xxxx, xxx xx, xxxx and xxx xx, xxxx. The gross receipt from non-members is well over the 15% threshold allowed in Public Law 94-568.

Law

Section 501(c)(7) of the Internal Revenue Code provides for From federal income tax of clubs organized and operated exclusively for recreation, and other non-profitable purposes provided that no part of net earnings inure to the benefit of any private shareholder.

Section 1.501(c)(7) of the Income Tax Regulation provides that, in general the exemption extends to social and recreation clubs supported solely by membership fees, dues and assessments. However, a club that engages in a business, such as making its social and recreational facilities open to the general public, is not organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a).

Public Law 94-568 amended Section 501(c)(7), effective for tax years beginning after 10/20/76, deleting, among other things, the words "and operated exclusively" from the law. These changes made it possible for more clubs to maintain their exempt status, while receiving income from nonmembers. In effect clubs can now generate a portion of its gross income from nonmembers and still retain its tax-exempt status 15% from non-members and up to 35% from investment income.

Revenue Ruling 69-219 1969-1 C.B. 153 states a social club that regularly holds its golf course open to the general public, charging established green fees that are used for maintenance and improvement of club facilities, is not exempt under section 501(c)(7) of the Code.

Revenue Procedure 71-17, sets forth guidelines for determining the effect of gross receipts derived from nonmember use of a social club's facilities on the club's exemption under Section 501(c)(7) of the Code. Additionally, this Procedure sets forth record keeping requirements that can be used by a club to document member vs. nonmember usage. This Revenue Procedure could be updated to incorporate the changes made to the Code

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Conclusion:

A golf club open to the general public is not exempt under 501(c)(7) of the Internal Revenue Code as the EO on a recurring basis has exceeded the 15% non-member threshold as outlined in Public Law 94-568. As a result revocation of the organization's exempt status is warranted and Form 1120 for tax years ending xxx xx, xxxx, xxx xx, xxxx, xxx xx, xxxx and xxx xx, xxxx must be filed with me by xxx xx, xxx. 25% of the total net operating loss found on schedule 10 will be allowed to be carried forward based on disallowing 60% of direct expenses as well as reallocating fixed costs during these tax periods. Please sign Form 6018 agreeing to revocation of your tax exempt status. Also please find court cases as well as publications which illustrate how Internal Revenue Code Section 277 should be followed when filing Form 1120's in the future.