



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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Section 501 -- Exemption From Tax on Corporations, Certain Trusts, etc. (Exempt v. Not Exempt)

501.00-00 Exemption From Tax on Corporations, Certain Trusts, etc. (Exempt v. Not Exempt)

501.07-00 Social Clubs

501.07-02 Distribution of Assets

LEGEND:

Taxpayer =

x =

Dear _____ :

This is reply to your letter dated September 25, 2009, and your further letter of December 16, 2009, requesting a ruling that the dissolution process of your social club will not result in revocation of your tax exemption under Section 501(c)(7) of the Internal Revenue Code (the "Code.")

FACTS:

Taxpayer is a membership non-profit corporation that has been recognized as tax exempt under Section 501(c)(7) of the Code. For many years, it has operated a club for the promotion of social intercourse among members, and the maintenance of facilities for playing golf, tennis, and other outdoor games and sports. Taxpayer has owned real

property which it has used in furtherance of its exempt purposes for approximately x years.

Taxpayer charges annual dues, and also collects separately accounted-for assessments to members to cover maintenance, improvements, payment of debt, and operating expenses. Membership is evidenced by a non-negotiable, non-interest bearing certificate. A certificate entitles a member to nominate and vote for the members of a board of trustees, receive and review corporate records, enjoy club privileges, and, in the event of the dissolution of Taxpayer, receive a pro rata share of the property and assets remaining after the payment of all debts and liabilities, upon a member's surrender of the member's membership certificate.

Because of rising expenses, in early 20XX the members voted to sell the club property, and thereafter liquidate club assets and dissolve the corporate entity. A Plan of Dissolution and Disposition of Assets was developed. An executed Agreement for Sale of Real Estate was negotiated, but has yet to be consummated and is subject to a number of customary purchaser-developer contingencies. The purpose of the sale is primarily to facilitate the dissolution of the corporation.

REQUESTED RULING:

The liquidating sale of its real estate will not cause Taxpayer to lose its tax-exempt status under Section 501(c)(7) of the Code.

LAW:

Section 501(c)(7) of the Code provides for the exemption of clubs organized and operated for pleasure, recreation, and other nonprofit purposes, substantially all the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations (the "regulations") states that the exemption provided to organizations described in section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if its net earnings inure to the benefit of any private shareholder. The regulation also states that, in general, this exemption extends to social and recreation clubs, which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Section 1.501(c)(7)-1(b) of the regulations provides that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not tax exempt. Solicitation by advertisement or otherwise for public patronage of its facilities is

prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption.

Rev. Rul. 58-501, 1958-2 C.B. 262, holds that where a social club described in section 501(c)(7) of the Code finds it impracticable to continue to conduct its exempt activities and, sells its property and liquidates, such sale is incidental to its exempt purposes. The Rev. Rul. states that the club will continue to be considered as operated exclusively for pleasure, recreation, and similar purposes up through the date of the sale and distribution of the liquidated assets to its active members.

ANALYSIS:

The facts surrounding the proposed sale of Taxpayer's assets show that such property has been used to carry out Taxpayer's exempt activities, but circumstances have changed, specifically the increased costs of operation. Thus, Taxpayer now wishes to sell its assets in conjunction with the dissolution of the club. As in the case of the sale of club property by the organization described in Rev. Rul. 58-501, supra, the purpose of the sale of Taxpayer's assets is to facilitate the club's dissolution rather than to make a profit. As noted in section 1.501(c)(7)-1(b) of the regulations, an incidental sale of property will not adversely affect a social club's tax exempt status. Furthermore, the distribution of liquidated assets to Taxpayer's members will not result in the revocation of the club's tax exempt status. See Rev. Rul. 58-501.

RULING:

The liquidating sale of its real estate will not cause Taxpayer to lose its tax-exempt status under Section 501(c)(7) of the Code.

This ruling is conditioned on the understanding that there will be no material changes in the facts upon which it is based.

This ruling is limited to the issue discussed above. It does not cover any other issue or statute, whether or not discussed in the instant ruling request. For example, we express no opinion on whether Taxpayer will be subject to unrelated business tax on any gain which it realizes on the liquidation sale of its assets. We also express no opinion on each member's tax liability arising from receipt of liquidation proceeds.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, Notice of Intention to Disclose. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

Because this letter could help resolve any future questions about tax consequences of your activities, you should keep a copy of this ruling in your permanent records.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter. In accordance with the Power of Attorney and Declaration of Representative currently on file with the Service, we are sending a copy of this letter to your authorized representative.

Sincerely,

/s/

Ronald J. Shoemaker
Manager Technical Group 2

Enclosure:

Notice 437