



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

501.07-00

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Date: November 23, 2010

Release Number: 201107029

Release Date: 2/18/11

LEGEND

ORG = Organization name    XX = Date    Address = address

**Employer Identification Number:**  
**Person to Contact/ID Number:**  
**Contact Numbers:**  
Voice  
Fax

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

Dear

In a determination letter dated January 9, 19XX, 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 January 1, 20XX. 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 February 23, 20XX 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 are required to file Form 1120 U. S. Corporation Income Tax Return for year ended December 31, 20XX with the Ogden Service Center.

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,

Nanette M. Downing  
Director, EO Examinations



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY

Internal Revenue Service  
Exempt Organizations  
2525 Capitol Street #217  
Fresno, CA 93721-2227

February 12, 2010

ORG  
ADDRESS

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear

We have enclosed a copy of our report of examination explaining why we believe an adjustment of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process*, explains how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

You may also request that we refer this matter for technical advice as explained in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*. If a determination letter is issued to you based on technical advice, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action*. We will then send you a final letter modifying or revoking exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

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 \_\_\_\_\_ and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Francisco N. Favila  
Revenue Agent

Enclosures:  
Publication 892  
Publication 3498  
Form 6018  
Report of Examination  
Envelope

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
Name of Taxpayer: ORG EIN EIN		Year/Period Ended December 31, 20XX

LEGEND

ORG - Organization name      XX = Date      State = state

**ISSUE:**

Is ORG properly operating as described in Internal Revenue Code 501 (c) (7)?

**FACTS:**

ORG, ORG, received tax exempt status as an organization described in Internal Revenue Code, IRC, 501 (c) (7) on January 9, 19XX.

ORG provided a copy of its Articles of Incorporation stamp dated July 11, 19XX by the State of State Department of Commerce and Commercial Code. Article III, part "a", states that the purpose of the organization is to operate a social club, as defined in IRC 501 (c) (7).

ORG is dedicated to conservation of habitat for wild game in the State of State. The main source of income is numerous banquets hosted by ORG and its chapters. Typically the banquets consist of a meal, an auction, and drawings or raffles. The banquets are open to the public and ORG attempts to solicit memberships, but a membership purchase is not necessary to participate in the banquet or any activities.

ORG did not keep adequate records required by Revenue Procedure 71-17. The ORG did not keep any records to separate member from non member income. ORG did not keep a record of the individuals that patronized ORG to able to distinguish from members, guests, and or the general public.

ORG did not report any membership dues or assessments on their filed 20XX Form 990. An examination of the tax period ending December 31, 20XX revealed that the financial statement, for the same period, showed \$ in membership dues. The amount was determined to be misclassified and was not membership dues, but was banquet revenue.

**LAW:**

Internal Revenue Code section 501(a) provides for exemption from taxation for certain organizations described in subsection (c).

Internal Revenue Code section 501(c) (7) describes social clubs as clubs organized for pleasure, recreation, and other purposes, substantially all of 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.

Regulation 1.501(c)(7)-1(a) states in part that in general, the exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments.

Regulation 1.501(c)(7)-1(b) states that a club which engages in business, such as making its social and recreational facilities available to the general public is not organized and operated exclusively for pleasure, recreation, and other purposes, and is not exempt under section 501(a). 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.

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
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Public Law 94-568 amended IRC section 501(c) (7) to allow these organizations to receive a greater amount of nonmember income without jeopardizing their exempt status. The committee reports provide that a section 501(c)(7) organization can receive up to 35% of its gross receipts from nonmember sources and investment income, as long as the nonmember gross income does not exceed 15% of the total gross receipts.

Revenue Procedure 71-17 sets forth guidelines for determining the effect gross receipts derived by the general public have on a club's exemption from Federal Income Tax under section 501(c)(7) of the Internal Revenue Code. Revenue Procedure 71-17 also describes the records a club must maintain when nonmembers use a club's facilities and the circumstances under which a host guest relationship will be assumed, which are relevant both for purposes of determining adherence to the exemption requirements and for computing exempt function income under section 512(a)(3) of the Code.

Section 3 of Revenue Procedure 71-17 provides a set of assumptions as to the status of nonmembers using club facilities. If nonmember use can be classified into one of the assumptions listed in Revenue Procedure 71-17, then the income derived from these individuals will be income from guests and treated as if from members and therefore be classified as exempt function income. Clubs are required to provide detailed records of nonmember use to substantiate the assumptions

Section 4 of Revenue Procedure 71-17 describes the records that a social club must maintain with respect to the assumption listed in section 3. Section 4.03 of Revenue Procedure 71-17 describes the books and records that must be maintained when the assumptions contained in Section 3.03 do not apply.

Section 4.04 of Revenue Procedure 71-17 states that failure to maintain such records or make them available to the Service for inspection will preclude use of the minimum gross receipts standard and audit assumptions set forth in this Revenue Procedure.

**GOVERNMENT'S POSITION:**

Based on the fact that appropriate records were not maintained by the Club to determine the total amount of nonmember income did not exceed the % limitation and the circumstances under which the Club operates, it is the Government's position that the Club is no longer operating in the manner described in IRC 501 (c) (7) and as such tax exemption status should be revoked.

**TAXPAYER' POSITION:**

The taxpayer agrees with the revocation and signed Form 6018-A.