



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

501.07-00

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: February 17, 2012

Number: **201222049**
Release Date: 6/1/2012

LEGEND

ORG - Organization name
XX - Date Address - address

ORG
ADDRESS

Employer Identification Number:
Person to Contact/ID Number:
Contact Numbers:
Telephone:
Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear :

In a determination letter dated October 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 appeal rights. On July 21, 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 have filed taxable returns on Form 1120, U.S. Corporation Income Tax Return for the years ended December 31, 2009 and December 31, 20XX 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,

Nanette M. Downing
Director, EO Examinations

Internal Revenue Service
Department of the Treasury
Tax Exempt and Government Entities Division
Exempt Organizations: Examinations
10 Causeway Street Room #581
Boston, MA 02222

Date: June 21, 2011

ORG
ADDRESS

Taxpayer Identification Number:
Person to Contact/ID Number:
ID Number
Contact Numbers:
Telephone:
Fax:

Dear :

Based on our review of the 2009 F990 & F990-T tax forms, we are proposing revocation of the IRC Section 501(c)(7) tax exemption for 210 Building Association, Inc., effective 1/1/20XX. You may choose to agree or disagree with this proposal for revocation. If you agree, please sign and return Form 6018-A, Consent to Proposed Action, and Form 5701, Notice of Proposed Adjustment. If you disagree, please sign Form 5701 and indicate in the checkbox if you will formally appeal or submit a request for a decision under the Fast Track program. Please submit this information by 7/21/20XX.

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. This letter and attachments are also sent to your representative we have on file.

Thank you for your cooperation.

Sincerely,

Trinh Nguyen
Revenue Agent

Enclosures:
Form 886-A - Explanation of Proposed Revocation
Form 5701 - Notice of Proposed Adjustment
Form 6018 - Consent to Proposed Action
Publication 3605 - Fast Track Mediation
Publication 5 - Your Appeals Right

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 12/ 31/20XX

LEGEND

ORG - Organization name XX - Date

ISSUE:

Whether The ORG may continue to qualify for exemption under IRC Section 501(c) (7) when its investment income consistently exceeds the thirty five percent (35%) limitation of total income?

FACTS:

The ORG (hereafter refers to as "EO"), has reported the following figures on its F990 for the year 20XX, 20XX, and 20XX:

	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>
Interest on savings and temporary cash investments (Investment Income)			
Total Revenue on F990			
Percentage of Investment Income over Total Revenue			

See Attachments of the EO's F990 Page 1 for the aforementioned years.

APPLICABLE LAW(S):

Section 501 (c) (7) of the Code (IRC) defines an exempt organization under this section as one that is organized for the pleasure, recreation, and other nonprofit purposes, for its members.

Section 1.501(c)(7)-1 of the Income Tax Regulations provides that, in general, the exemption extends to social and recreation clubs which are supported by membership fees, dues, and assessments. However, 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 non-profitable purposes, and is not exempt under section 501(a).

Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public Law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the public. Thus, a social club may receive investment income

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up to the full 35 percent amount of gross receipts. If a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

Revenue Ruling 66-149, 1966-1 C.B. 146 holds that a social club is not exempt from Federal income tax as an organization described in section 501(c) (7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments, which it owns.

GOVERNMENT POSITION:

Income from investments — a social club is not exempt from Federal income tax under IRC 501(c) (7) of the Code where it regularly derives a substantial part of its income from nonmember sources, such as dividends and interest on investments that it owns. ORG does not qualify for exemption under IRC 501(c) (7) under the year of examination.

TAXPAYER'S POSITION:

To Be Determined

CONCLUSION:

The ORG may not continue to qualify for exemption under IRC Section 501(c) (7) when its investment income consistently exceeds the thirty five percent (35%) limitation of total income. We are proposing revocation of the IRC Section 501(c)(7) tax exemption for the EO effective 1/1/20XX.