



DEPARTMENT OF THE TREASURY
Internal Revenue Service
TE/GE EO Examinations
1100 Commerce Street, MC 4920DAL
Dallas, TX 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: **MAY 30 2017**

Release Number: **201750021**
Release Date: 12/15/2017
UIL Code: 501.07-00

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:

CERTIFIED MAIL -Return Receipt Requested

Dear :

This is a Final Adverse Determination Letter as to your exempt status under section 501(c)(7) of the Internal Revenue Code. Your exemption from Federal income tax under section 501(c)(7) of the Code is hereby revoked effective January 1, 20xx.

Our adverse determination was made for the following reasons:

You have not demonstrated that you are operated exclusively for exempt purposes within the meaning of section 501(c)(7) of the Internal Revenue Code and Treasury Regulations 1.501(c)(7)-1. Exempt clubs are organized for pleasure, recreation, and other non-profitable purposes. The exemption extends to social and recreation clubs that are supported solely by membership fees, dues, and assessments. Our examination of your activities and finances revealed that your operations are supported primarily with funds other than from your members. Therefore, you are not operating in furtherance of or exclusively for pleasure, recreation or other similar nonprofit purposes as defined under section 501(c)(7) of the Code.

You are required to file Federal income tax returns on Form 1120. If you have not already filed these returns and the agent has not provided you instructions for converting your previously filed Form 990 to Form 1120, you should file these income tax returns with the appropriate Service Center for the tax year ending December 31, 20xx and for all tax years thereafter in accordance with the instructions of the return.

Processing of income tax returns and assessments of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: United States Tax Court, the United States Court of Federal Claims, or the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed before the 91st day after the date this determination was mailed to you if you wish to seek review of our determination. Please contact the clerk of the respective court for rules and the appropriate forms regarding filing petitions for declaratory judgment by referring to the enclosed Publication 892. Please note that the United States Tax Court is the only one of these courts where a declaratory judgment action can be pursued without the services of a lawyer. You may write to the courts at the following addresses:

United States Tax Court
400 Second Street, NW
Washington, DC 20217

US Court of Federal Claims
717 Madison Place, NW
Washington, DC 20005

U. S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, DC 20001

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit taxpayeradvocate.irs.gov or call 1-877-777-4778.

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

Sincerely yours,

Maria Hooke
Director, Exempt Organizations Examinations

Enclosures:
Publication 892

IRS

Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
Exempt Organizations Examinations
1100 S Commerce Street
Dallas Texas 75242

Date:
04/05/2017
Taxpayer Identification Number:

Form:

Tax Year(s) Ended:
December 31, 20xx
Person to Contact / ID Number:

Employee ID:
Contact numbers:
Telephone:
Fax:
Manager's Name / ID Number:

Employee ID:
Manager's Contact Number:

Response Due Date:
4/15/2017

Certified Mail - Return Receipt Requested

Dear

Why you are receiving this letter

We propose to revoke your status as an organization described in section 501(c)(7) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

What you need to do if you agree

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(7).

If we don't hear from you

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

Effect of revocation status

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

What you need to do if you disagree with the proposed revocation

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You also

may file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

Contacting the Taxpayer Advocate Office is a taxpayer right

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't 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:

Internal Revenue Service
Office of the Taxpayer Advocate

For additional information

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,

Maria Hooke
Director, EO Examinations

Enclosures:
Report of Examination
Form 6018
Publication 892
Publication 3498

| | | |
|------------------|---|----------------------|
| Form 886A | Department of the Treasury Internal Revenue Service | Explanation of Items |
| Name of Taxpayer | Year/Period Ended | |
| | 20xx12 1120 | |

Issue # 1

Should the _____ continue to qualify as an organization described in 501(c)(7) of the Internal Revenue Code?

Facts

During the review of the cash receipts journal, general ledger and other taxpayer related records, it has been noted that that _____ received \$xxx.xxx.xx or xx% if its total income for non-member bar sales, and green fees. In the previous year the organization received about the same percentage of income from these activities and was well above the 15% non-member threshold outlined in Public Law 94-568

From a discussion with President, it did not appear that the facts and circumstances would change significant enough for the organization to receive a substantial amount of income from its membership in the foreseeable future. Although, the current tax year is not due the non-member percentage will stay around the same for this tax year as well. As a result over a _____ year average the organization has exceeded the 15% threshold as outlined by the committee reports in Public Law 94-568.

Law

Internal Revenue Code Section 501(c)(7) describes organizations organized and operated exclusively for social, pleasure and recreational purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Internal Revenue Code Section 512(3) discusses special rules applicable to organizations described in paragraph (7) (9) (17) and (20) of section 501(c) the term unrelated business income means the gross income (excluding any exempt function income) less the deductions allowed by this chapter.

Exempt Function Income for purposes of this sub-section means the gross income from: dues, fees charged, or similar amounts, paid by members of the organization or consideration for providing goods and services in furtherance of the purposes constituting exemption.

Public Law 94-568 amended IRC 501 to reflect a two-fold change under IRC. First it made it clear that 501(c)(7) organizations may receive some investment income without losing its exemption. Second it permits a higher level of non-member use of club facilities.

| | | |
|----------------------|---|--------------------|
| Form 886A | Department of the Treasury - Internal Revenue Service | |
| Explanation of Items | | |
| Name of Taxpayer | | Year/ Period Ended |
| | | 20xx12 1120 |

Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admission fees, membership dues fees, assessments, investment income, but excluding initiation fees and capital contributions.

Public Law 94-568 also states that it its intended that Social Clubs can receive up to 35% of its gross income from investments from outside sources of their memberships without losing its tax-exempt status and up to 15% of its income cannot be received from the general public.

Internal Revenue Code Section 277 requires membership organizations to file Form 1120 that do not include membership losses on Form 1120

Taxpayer's Positon

The taxpayer has agreed to the revocation

Government's Positon

The taxpayer has received xx% of its income from non-members in tax years ending December 31, 20xx and December 31, 20xx and exceeds the 15% threshold.

Conclusion

Revocation of the organization's tax exempt status is warranted. The effective date of Revocation is January 1, 20xx; please sign Form 6018 agreeing to the revocation of the organization's exempt status, Also see attached spreadsheet reflecting how the Form 1120 should be prepared. See Instructions to Form 1120 to determine how depreciation should be calculated. If another form of depreciation such as MACRS is used the loss may be a little higher than in this calculation, which may cause continuous losses.