



**DEPARTMENT OF THE TREASURY**

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

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Date: JAN 11 2018

Release Number: **201830018**  
Release Date: 7/27/2018  
UIL Code: 501.03-00

Person to Contact:  
Identification Number:  
Contact Telephone Number:  
In Reply Refer to: TE/GE Review Staff  
EIN:

LAST DATE FOR FILING A PETITION  
WITH THE TAX COURT:

**APR 11 2018**

**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 established that you are operated substantially for pleasure and recreation of its members or other non-profitable purposes and no part of the earnings inures to the benefit of private shareholder within the meaning of IRC section 501(c)(7).

You have made your services, use of recreational and social facilities available to the general public. You have exceeded the non-member income test for tax years ending December 31, 20XX and December 31, 20XX.

You are required to file Federal income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for the year ending December 31, 20XX and for all years thereafter.

Processing of income tax returns and assessment 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 in court, you must initiate a suit for declaratory judgment in the United States Tax Court, the United States Claim Court or the District Court of the United States for the District of Columbia before the 91<sup>st</sup> day after the date this determination was mailed to you. Contact the clerk of the appropriate court for the rules for initiating suits for declaratory judgment.

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. We 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 our assistance, which is always free, we will do everything possible to help you. Visit [taxpayeradvocate.irs.gov](http://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,

A handwritten signature in black ink that reads "Maria Hooke". The signature is written in a cursive, flowing style.

Maria Hooke  
Director, Exempt Organizations Examinations

Enclosures:  
Publication 892



Department of the Treasury  
Internal Revenue Service  
Tax Exempt and Government Entities  
Exempt Organizations Examinations

Date:  
July 7, 2017  
Taxpayer Identification Number:

Form:

Tax Year(s) Ended:  
December 31, 20  
December 31, 20  
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:  
August 7, 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 – Section 7428*, 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).

After we issue the final revocation letter, we'll announce that your organization is no longer eligible for contributions deductible under section 170 of the Code.

**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:

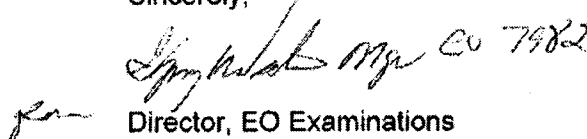
Internal Revenue Service  
Office of the Taxpayer Advocate

**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,

 EO 7982  
Director, EO Examinations

Enclosures:  
Report of Examination  
Form 6018  
Publication 892  
Publication 3498

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service	
<b>Explanation of Items</b>		
Name of Taxpayer		Year/Period Ended 20XX 20XX

## **ISSUE**

Whether ( ) continues to qualify for exemption under Internal Revenue Code (IRC) § 501(c)(7)?

## **FACTS**

The was granted as tax-exempt organization under section 501(c)(7) on September 26, 19XX to provide social, recreational and other activities to its members.

It is organized and operated for the promotion of interests in horses and horsemanship and to encourage a closer and personal relationship among horsemen and horse lovers. The carried out such activities as horse shows, play days, barbeques and meetings that bring families together in a social environment.

During the initial interview, the officer of the mentioned that the organization is a small, non-profit entity to promote horsemanship, the use of rural land, and activities involving children and their families. In addition the association also works with the community on open space issues and improvements to trails and parks that everyone can enjoy.

The organization owns the property consisting of 0-acres, with an arena, a single story rental house separated by a chain-link fence, and a meeting hall along with a kitchen, serving counter and a BBQ area in the back of the hall are located on the 0-acres arena. The single story rental house was rented to a member for \$0 a year and the renter looks after the property and is responsible for hall rentals.

Hall Rentals? Who can rent the hall?

Hall rentals are tracked as member and non member?

The general meetings of the organization are held monthly with dinner served, cooked by volunteers. The cost of the food reimbursed. Most attendees are members, but the guests of members were also invited.

Horse shows are open to members only because the organization doesn't have a health permit to sell food to the public.

What is a play day? How often held?

Play days are open to both members and nonmembers. The officer stated that the play days usually include approximate 0 riders of which around 0 might be non-members.

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The organization holds a monthly trail ride on the 0 acre property. Around 0 riders attended the monthly trail ride. A majority of them are members.

All events are coordinated and carried out by the volunteer members.

The officer stated that the organization separated member incomes from non-member on the registration for various activities. They accept payments in the cash and check forms. Additionally, they use Quicken to track income and pay bills with categories such as Non-Member Hall Rental Deposit, Member Event Income and Non-Member Event Income.

The organization reported the following sources and amounts of revenue on Forms 990-EZ for the periods ending December 31, 20XX and December 31, 20XX:

	12/31/20XX	12/31/20XX
Contribution	\$0	\$0
Program Service Revenue	\$0	\$0
Investment Income	\$0	\$0
Gross Sales of Inventory	\$0	\$0
Total Revenue	\$0	\$0

The following worksheet provided the Gross Incomes, Investment Incomes and Non-Member Incomes for the periods ending December 31, 20XX and December 31, 20XX:

	Total Gross Income		Investment & Non-Member Income (0%)		Non-Member Use Income of Org's Facilities (0%)		Investment Income	
	Amount	%	Amount	%	Amount	%	Amount	%
20XX	\$0	0	\$0	0	\$0	0	\$0	0
20XX	\$0	0	\$0	0	\$0	0	\$0	0

Based on conducting a two-year analysis of gross receipts, the organization received 0% and 0% from investment & non-members as well as 0% and 0% from non-members during tax years ending December 31, 20XX and December 31, 20XX, respectively.

## **LAW**

IRC § 501(c)(7) exempts from federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which

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		20XX
		20XX

are for such purposes and not part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7) of the Regulations 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).

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other non-profitable purposes. Public Law 94-568 amended the "exclusive" provision to read "substantially" in order to allow an IRC § 501(c)(7) organization to receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) further states;

(a) Within the 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from non-members, so long as the latter do not represent more than 15 percent of total receipts.

(b) Thus, a social club may receive investment income up to the full 35 percent of its gross receipts if no income is derived from non-members' use of club facilities.

(c) In addition, the Committee Report states that where a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facilities, that income is not to be included in the 35 percent formula.

Revenue Ruling 66-149 holds a social club as not exempt as an organization described in IRC § 501(c)(7) where it derives a substantial part of its income from non-member sources.

Revenue Ruling 60-324 states by making its social facilities available to the general public the club cannot be treated as being operated exclusively for pleasure, recreation or other non-profitable purposes.

Revenue Procedure 71-17 sets forth the guidelines for determining the effect of gross receipts derived from the general public's use of a social club's facilities on exemption under IRC § 501(c)(7). Where nonmember income from the usage exceeds the standard as outlined in this Revenue procedure, the conclusion reached is that there is a non-

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exempt purpose and operating in this manner jeopardizes the organization's exempt status.

### **TAXPAYER'S POSITION**

Taxpayer's position has not been provided.

### **GOVERNMENT'S POSITION**

Based on the examination, the organization does not qualify for exemption as a social club described in IRC §501(c)(7) and Treas. Reg. §1.501(c)(7) which provides that in general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments.

Rev. Ruls. 66-149 and 60-324 support this position stating that a social club that opens to the public and derives a substantial part of its income from non-member sources is not exempt as an organization described in 501(c)(7).

The organization permits use of its facilities and attendance at its events by the general public. Records show that it had exceeded the 35% investment & non-member income as well as 15% non-member income threshold as outlined in Public Law 94-568, on a recurring basis during tax years ending December 31, 20XX with 0% / 0% and December 31, 20XX with 0% / 0% respectively.

Accordingly, it is proposed that the organization's tax-exempt status be revoked effective January 1, 20XX.

### **CONCLUSION**

The organization no longer qualifies for exemption under § 501(c)(7) of the Code as your investment and non-member income has exceeded the 35% threshold as well as non-member income exceeded 15% threshold on a continuing basis. Therefore, it is proposed that your exempt status under § 501(c)(7) of the Code be revoked effective January 1, 20XX.

Form 1120 Corporation Income Tax Return should be filed starting with tax periods ending December 31, 20XX, December 31, 20XX and thereafter as long as you continues to be subject to income tax.