



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
TEGE EO Examinations Mail Stop 4920 DAL
1100 Commerce St.
Dallas, Texas 75242

UIL: 501.03-00

Date: November 15, 2018

Tax Year(s) Ending:

Taxpayer Identification Number:

Person to Contact:

Number: 201909011

Employee Identification Number:

Release Date: 3/1/2019

Employee Telephone Number:
(Phone)

CERTIFIED MAIL – RETURN RECEIPT

Dear _____ :

This is a final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(7) for the tax period(s) above. Your determination letter dated 01/21/19XX is revoked.

Our adverse determination as to your exempt status was made for the following reason(s):

You have exceeded the 35% gross receipts limitation on income from non-member sources. Also, you do not adhere to the record keeping requirements of Revenue Procedure 70-17 as you were unable to produce records regarding your membership or your rental income.

This letter isn't a determination of your exempt status under section 501 for any periods other than the tax period(s) listed above.

Organizations that are not exempt under section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms, and information please visit www.irs.gov.

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: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the

appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment by referring to the enclosed Publication 892. You may write to the courts at the following addresses:

United States Tax Court
400 Second Street, N.W.
Washington, D.C. 20217

U.S. Court of Federal Claims
717 Madison Place, N.W.
Washington, D.C. 20439

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

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

You may also be eligible for help from the Taxpayer Advocate Service (TAS). 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 www.taxpayeradvocate.irs.gov or call 1-877-777-4778.

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

Sincerely,

Maria Hooke
Director, EO Examinations

Enclosures:
Publication 892



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

Date: June 7, 2018

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact:

Employee ID:

Telephone:

Fax:

Manager's Contact Information:

Employee ID:

Telephone:

Response Due Date:

CERTIFIED MAIL – Return Receipt Requested

Dear :

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501 (c)(7).

If you agree

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501 (c)(7) for the periods above.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

If you disagree

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to

IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

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 adverse determination letter.

Contacting the Taxpayer Advocate Office is a taxpayer right

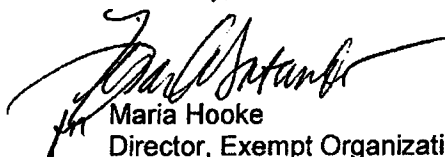
The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance,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

For additional information

You can get any of the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,



Maria Hooke
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018

Form 886-A	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
Explanation of Items		
Name of Taxpayer		Year/Period Ended
		20XX
		20XX

Issue:

Should the tax exempt status of _____ under IRC Section 501(c)(7) be revoked as of January 1, 20XX?

Facts:

Bylaws were approved and adopted on January 27, 19XX and states membership must be male and female people of _____ origin (which includes the _____ and _____ in what is now known as Northern _____). Acceptable for membership will also be men or women married to person of such descent, or person of such parentage either on mother's or father side. All members must be 18 years of age and over. All applicants must be of sound mind and of good character.

The organization was incorporated in the State of _____ on February 25, 19XX. The Certificate of Incorporation states the purpose of the organization is to promote the friendship of its members, to inculcate in them a high sense of loyalty to each other, to stimulate their intellectual advancement, to hold meetings and social gatherings, to foster interest in and promote civic patriotic and social work in the community, to cultivate social intercourse among its members, to establish a center of work and interest for the members in order to improve their health, physical and mental condition, to promote friendship social ability and culture among members.

_____ received Letter 948 dated January 21, 19XX indicating that the organization was exempt under Section 501 (c)(7) of the Internal Revenue Code. Letter 948 states in part "A section 501(c)(7) organization is permitted to receive up to, 35% of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. Of the 35%, not more than 15% of the gross receipts may be derived from the use of the club's facilities or services by the general public. Income in excess of these limits may jeopardize your continued tax exempt status."

Our examination of Form 990 EZ filed with the IRS for the tax years ending December 31, 20XX and December 31, 20XX shows that the organization received Rental Income of \$0 in 20XX and \$0 in 20XX. Total membership dues for the same periods equal \$0 and \$0 respectively. The organization owns a _____ facility located at _____ and rents _____. There are _____ apartments on each floor. In total, _____ apartments are rented. The service has no record of the organization filing Form 990-T to report rental income for the tax years ending December 31, 20XX and December 31, 20XX. Our review of the organization's books and bank records determined income was derived from the sources as reported below:

	12/31/20XX	12/31/20XX	Total
Membership Dues	\$ 0.00	\$ 0.00	\$ 0.00
Rental Income	\$ 0.00	\$ 0.00	\$ 0.00
Gross Income from Fundrai:	\$ 0.00	\$ 0.00	\$ 0.00
Total	\$ 0.00	\$ 0.00	\$ 0.00

Form 886-A	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
Explanation of Items		
Name of Taxpayer		Year/Period Ended
		20XX
		20XX

The investment income represent 0% and 0% of Gross Receipts for the years under exam.
The membership dues represent 0% and 0% of Gross Receipts for the years under exam.

A membership roster and the amount of dues each member paid was requested but the organization was unable to provide this information. The organization stated that there were 0 members who paid \$0 in annual dues in 20XX and 0 who paid a \$0 in annual dues in 20XX. No additional supporting documents were provided.

Lease Agreements for the apartment rentals and a schedule of payments was requested but the organization was not able to any of these agreements and only produced a list as follows:

20XX

\$0 / month
\$0 / month
\$0 / month
\$0 / month

20XX

\$0 / month
\$0 / month
\$0 / month
\$0 / month

No additional supporting documents were provided.

An Internet search shows that organization listed the apartments for rent on the following websites:

https://
https://www.

See attached Exhibit 1, Exhibit 2 and Exhibit 3.

The organization fails to maintain records to support that is activities are for exempt purposes.

Law:

Internal Revenue Code Section 501(c)(7) provides exemption to clubs "organized for pleasure, recreation, and other non-profitable 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."

Income Tax Regulation 1.501(c)(7)-1(a) states, in part, exemption is provided only to "clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes... " and"... exemption extends to social clubs and recreation clubs which are supported solely by membership fees, dues, and assessments."

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		20XX
		20XX

Revenue Procedure 70-17, 1971-1 C.B 683 describes the records required when nonmembers use a club's facilities. It states in part that a club must maintain books and records of each use and that the amount derived from each use.

The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) states that it is intended that social clubs be permitted to receive up to 35% of their gross receipts, including investment income, from sources outside of their membership without losing their tax-exempt status. Within this 35%, no more than 15% of the gross receipts may be derived from the use of the club's facilities or services by the general public.

Rev. Rul. 58-589, 1958-2 C.8. 266 states, in part the organization must have an established membership of individuals, personal contacts and fellowship. The commingling of members must be material to the organization.

Revenue Ruling 66-149, 1966-1 C.8.146 states, in part, 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.

Taxpayer's Position:

The organization does not agree that the tax-exempt status of _____ should be revoked.

Governments Position:

It is the government's position that the tax exempt status of _____ be revoked because the organization has exceeded the 35% gross receipts limitation on income from non-member sources.

The organization also does not adhere to the recordkeeping requirements of Revenue Procedure 70-17 as they were unable to produce records regarding their membership or the rental income.

_____ exempt status should be revoked because it regularly derives a substantial part of its income from nonmember sources. Forms 990 EZ clearly disclose that the *revenue* exceeds the 35% limitation on nonmember income sources established by Public Law 94-568.

Conclusion

_____ is not operating as an organization described in Section 501(c)(7) of the Internal Revenue Code. Accordingly, we propose to revoke the organization's exempt status effective as of January 1, 20XX. The organization will be required to file Form 1120 for all tax periods subsequent to the revocation of their tax exempt status.