



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

1100 Commerce Street, MC 4920DAL

Dallas, TX 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Number: **202110033**
Release Date: 3/12/2021

UIL: 501.07-00

Date:
September 17, 2020
Taxpayer ID Number:

Form:
For Tax Period(s) Ending:
Person to Contact:
Identification Number:
Telephone Number:

CERTIFIED MAIL - Return Receipt Requested
LAST DAY FOR FILING A PETITION WITH THE TAX COURT:

Dear :

This is a final determination that you do not qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(7) for the tax period(s) above. Your determination letter dated July 20XX is revoked.

Our adverse determination as to your exempt status was made for the following reasons:

You have not established that you are operated substantially for pleasure and recreation of your 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 recreational and social facilities available to the general public. You have exceeded the non-member income test for tax year ending May 31, 20XX.

Organizations that are not exempt under IRC 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 IRC Section 7428 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 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, NW
Washington, DC 20217

U.S. Court of Federal Claims
717 Madison Place, NW
Washington, DC 20439

U. S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, DC 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 IRC Section 7428.

You may 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.

Taxpayer Advocate assistance can't be used as substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determination, nor extend the time fixed by law that you have to file a petition in 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.

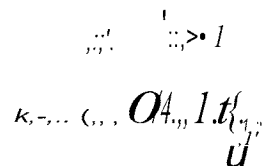
You can get any of the forms or publications mentioned in this letter by calling 800-TAX-FORM (800-829-3676) or visiting our website at www.irs.gov/forms-pubs.

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

Enclosures:

Publication 892

Sincerely,



Sean E. O'Reilly
Director, Exempt Organizations Examinations



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

Date:
05/06/2020
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:
ID number:
Telephone:
Fax:
Address:

Manager's contact information:

Name:
ID number:
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.

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 sign a consent to extend the period of limitations for assessing tax. This is to allow the 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.

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,

Russell T. Renwicks

Digitally signed by Russell T.
Renwicks
Date: 2020.05.05 10:40:30 -04'00'

For
Maria Hooke
Director, Exempt Organizations Examinations

Enclosures:
Form 886-A
Form 6018

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (<i>last 4 digits</i>)	Year/Period ended May 31, 20XX

ISSUE:

Does _____ continue to qualify for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code as a Social Club?

FACTS:

_____ was incorporated in the state of _____ on December 4, 19XX. The stated exempt purpose was to operate a social club and lodge room for the members of a fraternal association known as the _____ (_____). The proposed activities were to conduct social events for the Council, and to purchase, take, hold, lease, rent, sell or mortgage real property for the purpose of owning and operating a social club and lodge room. The articles of incorporation include a clause that states upon the dissolution of the corporation, all assets remaining after the payment of debts will become the property of _____ in the City of _____.

The bylaws for _____ states that "Any member of _____ of the _____ shall be considered members of _____."

The Form 990 filed for the tax period ending May 31, 20XX states that _____ was the property-owning entity and had provided the facility for the _____ and the _____. The _____ is a fraternal organization considered tax-exempt under section 501(c)(8) of the Internal Revenue Code (IRC). The _____ is also a fraternal organization considered tax-exempt under IRC section 501(c)(8).

_____ was formerly exempt under IRC section 501(c)(8) as a fraternal organization but had filed for exemption under IRC section 501(c)(7) as a social club on May 16, 20XX.

The Form 1024, Application for Recognition of Exemption Under Section 501(a), filed by _____ states that the primary activities are the ownership of property for the _____ and _____ Charitable Activities, and to provide a facility for the operation of a weekly bingo where 0 percent of the proceeds are provided to the _____ for charitable donations.

The organization was granted exemption under Internal Revenue Code Section 501(c)(7) on July 24, 20XX, effective May 28, 20XX. The Determination Letter 947 included the statement that "A section 501(c)(7) organization is permitted to receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. Of the 35 percent, not more than 15 percent 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."

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended May 31, 20XX

On January 18, 20XX, [redacted] sold the building and the land to [redacted] of [redacted]. The purchase price was \$0. [redacted] received \$0 of the proceeds in cash. The remaining \$0 was credited to fees, taxes, etc. The organization deposited the \$0 received in cash into a money market account with [redacted] in January 20XX. On October 6, 20XX [redacted] withdrew the \$0 and deposited it into their account with [redacted]. On October 8, 20XX, [redacted] wrote and issued check #0 to [redacted] in the amount of \$0. The notation on the check indicates that is was for a donation to the new [redacted]. The donation was made in accordance with the dissolution clause included in the articles of incorporation that states upon the dissolution of the corporation, all assets remaining after the payment of debts will become the property of [redacted] in the City of [redacted]. The determination specialist had granted exemption under IRC section 501(c)(7) based on the governing documents provided.

The [redacted] bank account (regular shares) was set up for the deposits of investment income earned from the [redacted] money market account. The money market account was closed after the withdrawal of the \$0 that was donated to the [redacted]. The \$0 in investment income reported on the Form 990 for the tax period ending May 31, 20XX was from the [redacted] bank account. No other income was reported on the Form 990 as all membership dues were paid to the [redacted] 399. [redacted] had similarly reported \$0 in investment income as the only income received for the tax period ending May 31, 20XX.

The investment income received by [redacted] since the sale of the property represents one hundred percent of its gross receipts.

The organization has not conducted any social activities since the property was sold on January 18, 20XX. The only activity currently conducted by the organization is providing donations to the [redacted] and the [redacted] for their activities.

LAW:

Section 501(c)(7) of the Internal Revenue Code provides for exemption from Federal income tax of clubs organized for pleasure, recreation, and other nonprofitable 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.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations states that “The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number <i>(last 4 digits)</i>	Year/Period ended May 31, 20XX

supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.”

IRC 501(c)(7) was amended in 1976 by Public Law 94-568 to allow organizations to receive a greater amount of nonmember income without jeopardizing their exempt status. Prior to passage of this law, IRC 501(c)(7) provided exemption for social clubs organized exclusively for pleasure, recreation and other nonprofitable purposes. That law substituted the word "substantially" for "exclusively."

The Committee reports show that this wording change was intended to make it clear that social clubs may receive outside income, without losing their exempt status. However, the Committee reports also specified clearly defined limits on this outside income, which if exceeded then invoke the application of a facts and circumstances test. The audit standard of Rev. Proc. 71-17 has been effectively raised, as of October 21, 19XX, to allow social clubs to receive up to 35% of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. Within this 35%, no more than 15% of gross receipts may be derived from nonmember use of club facilities and/or services. Gross receipts are defined for this purpose as those receipts from normal and usual activities that have been traditionally conducted by the club or by other social and recreational clubs of the same general type. For example, in the case of country clubs, gross receipts include receipts from activities traditionally conducted by country clubs. Unusual amounts of income, such as from the sale of a clubhouse or similar facility are not to be included in either the gross receipts of the club or in the permitted 35 or 15 percent allowances. It should be emphasized that gross receipts from the conduct of a nontraditional business or other activity previously forbidden may not be included within the percentage guidelines. The conduct of a business not traditionally carried on by social clubs unless it is insubstantial, trivial, and nonrecurrent, should preclude exemption.

The committee reports provide that an organization described in section 501(c)(7) is permitted to receive up to 35 percent of its gross receipts from nonmember sources, including investment income, as long as the nonmember gross income does not represent more than 15 percent of total gross receipts. See S. Rep. No. 94-1318, 94th Cong., 2d Sess. 4 (1976); 1976-2 C.B. 597, 599. See also H.R. Rep. No. 94-1353, 94th Cong. 2d. Sess. 4 (1976). Where the permitted levels of nonmember source income are exceeded, all facts and circumstances will be taken into account in determining whether the social club continues to qualify for exempt status. Thus the 15% and 35% rules are essentially safe-harbors.

TAX PAYER POSITION:

The treasurer for _____ stated that all members of _____ are members of _____, and that _____, in conjunction with _____, have hosted several activities since the sale of the building, including a Mother’s Day breakfast (open to the general public as well as members), a pizza and dessert movie night, a

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number <i>(last 4 digits)</i>	Year/Period ended May 31, 20XX

cookies and hot chocolate social, and a ham dinner. The food was paid for from donations from and proceeds were donated to the

The organization indicated that it is in agreement with the Government's position that the organization does not qualify for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code as a Social Club.

GOVERNMENT POSITION:

We are proposing the revocation of the Tax-Exempt Status of _____ due to the fact that 0 percent of the gross receipts received by the organization is from investment income and has exceeded the 15 and 35 percent safe harbor that is provided by Public Law 94-568.

In addition, _____ has not conducted any social activities since the property was sold on January 18, 20XX. The only activity currently conducted by the organization is providing donations to the _____ and the _____ for their activities.

The Service will not pursue the sale of property issue based on several factors. First, the proceeds of the sale were donated to the _____, as required by the dissolution clause included in the Articles of Incorporation. The determination specialist had granted exemption under IRC section 501(c)(7) based on the governing documents provided. In addition, the actual social activities were conducted by the _____, and not by the 501(c)(7) organization. The primary purpose of the 501(c)(7) organization was to hold title to the property as the local the _____ was prohibited from owning property. The organization should probably have been granted exemption under IRC 501(c)(2) as a title holding corporation instead of an IRC 501(c)(7) social club.

Based on the information provided, it is recommended that the exempt status of the organization be revoked effective June 1, 20XX.