



**DEPARTMENT OF THE TREASURY**  
INTERNAL REVENUE SERVICE  
1100 Commerce Street, MC 4920DAL  
Dallas, TX 75242

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Number: **202110043**  
Release Date: 3/12/2021

UIL: 501.07-00

Date: September 28, 2020

Taxpayer ID Number:

Form:

For Tax Period(s) Ending:

Person to Contact:

Identification Number:

Telephone Number:

Fax 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 August 19XX 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 December 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](http://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](http://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](http://www.irs.gov/forms-pubs).

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

Sincerely,



Enclosures:  
Publication 892

Sean E. O'Reilly  
Director, Exempt Organizations Examinations



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

**Date:**  
January 21, 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](http://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](http://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,

A handwritten signature in black ink, appearing to read "Maria Hooke".

For Maria Hooke  
Director, Exempt Organizations  
Examinations

Enclosures:  
Form 886-A  
Form 6018

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

**ISSUE:**

Whether the \_\_\_\_\_ is still qualified for exemption under Section 501(c)(7) of the Internal Revenue Code?

**FACTS:**

The \_\_\_\_\_ is an exempt organization located in \_\_\_\_\_. The organization is open to the general public. Its main activity is to operate a club which provides the community the enjoyment of golfing. The organization was granted its exempt status in August 19XX as an exempt organization under section 501(c)(7) of the Internal Revenue Code.

The organization had 0 members in tax year 20XX, with each member paying average yearly dues of \$0. The gross receipts received by the organization in tax year 20XX, per the books and records, was \$0. The organization's source of income from its members was \$0. The remaining income \$0 was from non-members, including green fees and cart rental, sales of food and drink during the tournaments open to the public, hole sponsorships, and donations made by the organizations using the club property for private events. That is, 0% of total receipts were from non-members for the tax year 20XX.

Key Operation Expenses in 20XX (per the Leger)

Salary	0
course maintenance	0
Equipment maintenance/repair	0
Utilities	0
Insurance	0
Fuel	0
Property tax	0
<b>TOTAL</b>	<b>\$ 0</b>

The organization indicates that it is difficult to raise the membership dues to cover the operation cost as a result of the increasing number of similar clubs in the neighborhood. It is also difficult to recruit potential new club members in the community because the residents have other activities and financial responsibilities for their families. As the club membership declines, the organization has relied on revenue from non-members to maintain its operation in recent years. The gross receipts derived from non-members use of club facilities and service has consistently exceeded 15%.

**TAX LAW:**

Internal Revenue Code (IRC) section 501(c)(7) provides for the exemption from Federal income taxes for Social Clubs. Income Tax Regulation section 1.501(c)(7)-1 states that if a Social Club makes its social and recreational facilities available to the general public it will not qualify for tax-exempt status. However, Revenue Procedure 71-17 as amended by Public Law 94-568 provides certain gross receipts safe harbors; i.e. Social Clubs may receive up to 35% of their total gross receipts, including investment income, from sources outside of their membership without jeopardizing their tax-exempt status. Within this 35% limit, no more than 15% of a club's gross receipts may be derived from nonmember use of the club's facilities and/or services. If these standards are exceeded, a Social Club will not qualify for exemption pursuant to IRC section 501(c)(7).

Also, according to Revenue Ruling 58-589, "Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes."

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

**TAXPAYER'S POSITION**

The position of the taxpayer is unknown at this time.

**GOVERNMENT'S POSITION**

\_\_\_\_\_ has failed to qualify to be exempt under 501(c)(7) because it has exceeded the 15% gross receipts standard for non-member income on a continuous basis. The non-member receipts are earned throughout the year. There was no one single or unusual event that caused the club to exceed the 15% threshold.

The amount of non-member income for use of the facilities was 0% in 20XX. The organization has indicated that it is unable to secure enough members to not be open to the public. It has also indicated that for 20XX and 20XX that it has relied on non-member income to cover the costs of operating the club.

In summary, because the \_\_\_\_\_ is open to the general public and because its gross receipts from non-member use of its facility consistently exceed the allowed amounts (15% of the gross receipts), the \_\_\_\_\_ no longer qualifies as an organization that is organized and operated as a Social Club as described in IRC section 501(c)(7).

Revocation of its tax-exempt status is warranted, effective January 1, 20XX.

**CONCLUSION**

**As a taxable entity, the organization is required to file Form 1120, U.S. Corporation Income Tax Return beginning in the tax year ending December 31, 20XX and in all future tax years.**

Additionally, the organization is reminded of the provisions of IRC 277 concerning membership organizations which are not exempt organizations.

In accordance with the provisions of Internal Revenue Code Section 6014, copies of these examination conclusions and consent to the revocation of tax exemption will be submitted to the \_\_\_\_\_ Department of Revenue at the conclusion of the examination.