



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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Number: **202216021**
Release Date: 4/22/2022

Date:
March 3, 2021
Taxpayer ID Number:

Form:

For Tax Period(s) Ending:

Person to Contact:

Identification Number:

Telephone Number:

UIL: 501.07-00

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 May 19 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 April 30, 2018.

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.

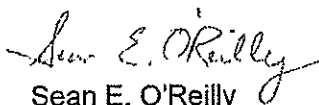
Taxpayer Advocate assistance can't be used as substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determination, nor extend the time fixed by law that you have to file a petition in Court. The Taxpayer 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 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:
August 3, 2020
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:
ID number:
Telephone:
Fax:
Hours:

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.

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 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.

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,

Sean E. O'Reilly
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018
Publication 892
Publication 3498

| | | |
|---------------------------------|---|----------------------------|
| 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 |

ISSUE

Whether the organization continues to qualify for exemption under Internal Revenue Code section 501(c)(7) if its investment income is greater than 35% of its gross receipts?

FACTS

Organizational Structure

The organization, (), was incorporated on May 24, in the state of

The Certificate of Incorporation states that the purpose of the organization is to own, operate, and maintain a membership club, clubhouses, club rooms, recreation centers, and reception and assembly rooms for the purpose of providing for the members' entertainment, sport, recreation, and amusement of all kinds; to furnish, equip, decorate, and fit up such clubs and club rooms; to promote social and friendly intercourse among the members of such club or among their guests; to provide and supply any and all appurtenances that may be necessary, useful or convenient for the carrying on of sports, recreations and diversions of all kinds and description for the entertainment, welfare and convenience of the members and their guests and friends. To promote friendship among its members; to inculcate in them a high sense of loyalty to each other; to stimulate their intellectual advancement and to hold meetings and social gatherings for the better realization of such purposes.

Form 990-EZ and Form 990-T

The was examined for the tax year ending April 30, 20 . The name of the organization listed on Form 990-EZ is:

The reported \$ In total gross receipts for the year ending April 30, 20 . The following is a breakdown of revenues reported in Part I, *Revenue, Expenses, and Changes in Net Assets or Fund Balances*, of the Form 990-EZ:

| Part 1 – Revenue, Expenses, and Changes in Net Assets or Fund Balances | | |
|--|---|--------|
| Line # | Description | Amount |
| 4. | Investment Income | \$ |
| 9. | Total (lines 1, 2, 3, 4, 5c, 6d, 7c, and 8) | \$ |

The organization's primary exempt purpose stated in Part III, *Statement of Program Service Accomplishments*, is "Fraternal Organization."

The Form 990-T was viewed but not examined for the year ending April 30, 20 . The reported Unrelated Trade or Business Income on Form 990-T as \$ n Part I, *Unrelated Trade or Business Income*, as follows:

| | | |
|---------------------------------|--|----------------------------|
| 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 |

| Part 1 - Unrelated Trade or Business Income | | Column A | Column B | Column C |
|---|---|----------|----------|----------|
| Line # | Description | Income | Expenses | Net |
| 8. | Interest, annuities, royalties, and rents from controlled organizations | \$ | | \$ |
| 13. | Total (lines 3 through 12) | \$ | | \$ |

Initial Contact

Revenue Agent was first contacted by _____, the power of attorney (POA), for the _____. The POA indicated that the organization no longer conducts any activities and all the income received is derived from a _____-year note receivable for the sale of the _____ clubhouse in 20_____.

Initial Appointment

A field examination was not scheduled as the POA stated the _____ sold its clubhouse in _____ and since stopped conducting any operations. The examination was conducted through correspondence.

Membership

The Club did not receive any income other than investment income as verified on the bank statements provided.

Facility

As explained by the POA over the phone, the _____ clubhouse has been sold on July 15 to an unrelated entity. Revenue Agent received a signed statement by the POA stating that the entity that bought the clubhouse was not related and are not former members of the _____.

Social and Recreational Activities

The POA stated that the _____ no longer conducts any social and recreational activities and will move forward to dissolving the _____.

LAW

Internal Revenue Code (IRC)

IRC §501(c)(7) provides exemption from income taxes for 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.

Treasury Regulation

Treasury Regulation §1.501(c)(7)-1(a) further provides that in general, this exemption extends to social and recreation clubs which are 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.

| | | |
|---------------------------------|---|----------------------------|
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Prior to its amendment in 1976, IRC §501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other nonprofitable 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

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, for example, dividends and interest on investment it owns.

TAXPAYER'S POSITION

Revenue Agent discussed the proposed revocation with _____ POA, explained the requirements of an organization exempt under IRC section 501(c)(7), and why the _____ no longer meets those requirements. The POA stated that he agrees with the proposed revocation.

GOVERNMENT'S POSITION

As a result of the examination, the _____ fails to establish that it is a social and recreational club that qualifies for exemption from federal income tax under section 501(c)(7) of the IRC and section 1.501(c)(7)-1 of the Treasury Regulations because its investment income exceeds the allowable 35% investment income limitation. Furthermore, the _____ is no longer conducting any social and recreational activities.

[Continued on next page]

| | | |
|---------------------------------|---|----------------------------|
| Form 886-A (May 2017) | Department of the Treasury – Internal Revenue Service Explanations of Items | Schedule number or exhibit |
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The _____ received _____ % of its income for tax year ending April 30, _____ from investment income, calculated in the following table:

| | April 30, | TOTAL | |
|--|-------------|-------------|----------|
| Club Activities-Member | \$ - | \$ - | |
| Club Activities-Nonmember | \$ - | \$ - | |
| Membership Dues and Assessments | \$ - | \$ - | |
| Investment Income | \$ | | |
| Total Nonmember Income | \$ - | \$ - | A |
| Total Investment Income | \$ | | B |
| Total Income | \$ | | C |
| Nonmember Income % - (Divide A by C) | 0.0% | 0.0% | |
| Investment Income % - (Divide B by C) | % | % | |

The _____ investment income exceeds the 35% threshold permissible for an organization tax-exempt under section 501(c)(7) of the IRC.

Public Law 94-568 provides that social clubs are permitted to receive up to 35% of their gross receipts from sources outside of their membership without losing their tax-exempt status, and that within that 35%, not more than 15% of gross receipts should be derived from the use of a social club's facilities or services by the general public.

The _____ is like the organization in Revenue Ruling 66-149, in that the _____ derives a substantial part of its income from non-member sources; _____ % of the _____ income is investment income.

CONCLUSION

As a result of the examination, the _____ is not a club organized for pleasure, recreation, and other nonprofitable purposes because its investment income exceeds the allowable 35% investment income for organizations under section 501(c)(7) of the IRC. Moreover, the _____ no longer conducts any social and recreational activities.

The _____ should no longer be tax-exempt under section 501(c)(7) of the IRC. Therefore, it is proposed that the _____ tax exempt status under section 501(c)(7) of the IRC be revoked effective May 1, 20____. The organization will be required to file Form 1120 for all tax periods subsequent to the revocation of their exempt status.

If you agree with this conclusion, please sign the attached forms. If you disagree, please submit a statement of your position.