



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

Date: May 10, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Release Number: 202237018

Release Date: 9/16/2022

UIL Code: 501.07-00

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear :

Why we are sending you this letter

This is a final determination explaining why your organization doesn't qualify as an organization described in Internal Revenue Code (IRC) Section 501(c)(7) for the tax periods above.

In the future, if you believe your organization qualifies for tax-exempt status and would like a determination letter from the Internal Revenue Service, you can request a determination by filing Form 1024, Application for Recognition of Exemption Under Section 501(a), or Form 1024-A, Application for Recognition of Exemption Under Section 501(c)(4) of the Internal Revenue Code, (as applicable) and paying the required user fee.

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 any private shareholder within the meaning of IRC Section 501(c)(7). You have exceeded the non-member income test for tax year ending

We'll notify the parent organization (as permitted by law) of our determination that you aren't an organization described in IRC Section 501(c)(7) and are no longer covered under their group exemption.

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.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

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.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. 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.

Information about the IRS Taxpayer Advocate Service

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. However, you may be eligible for free help from the Taxpayer Advocate Service (TAS) if you can't resolve your tax problem with the IRS, or you believe an IRS procedure just isn't working as it should. TAS is an independent organization within the IRS that helps taxpayers and protects taxpayer rights. Contact your local Taxpayer Advocate Office at:

Internal Revenue Service
Taxpayer Advocate Office

Or call TAS at 877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to taxpayeradvocate.irs.gov. Do not send your federal court pleading to the TAS address listed above. Use the applicable federal court address provided earlier in the letter. Contacting TAS does not extend the time to file an action for declaratory judgment.

Where you can find more information

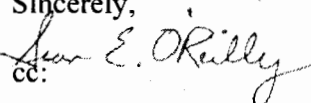
Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

Keep the original letter for your records.

Sincerely,

cc:

Enclosures:
Publication 1
Publication 594
Publication 892



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
MS4929

Date:
March 25, 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:
April 25, 2020

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.

– Only Applicable to Group Exemption Parent Organizations

[Revenue Procedure 80-27 requires that, in the event your tax-exempt status is revoked, your group exemption will also be revoked. If that occurs, none of your subordinates will be able to rely on the group ruling for tax-exempt status. You should notify each subordinate of this proposed action.]

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,

⁸⁰
Maria Hooke
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018
Form 4621-A
Publication 892
Publication 3498

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

ISSUE:

Does
continue to qualify for exemption under Internal Revenue Code § 501(c)(7) given that it receives more than 15% of its income from investment income on a recurring basis?

FACTS

Organizational Documents

is a subordinate of
(). was recognized as exempt social club under
the Internal Revenue Code Section 501(c)(7) from a group ruling of the parent;
The organization is recognized to operate at
to manage the activities of the
is also known as the
“ ”

Its purposes as stated in its Articles of Incorporation dated as a
“... organized exclusively for charitable, religious, education, and
scientific purposes, including, for such purposes, the making of distributions to
organizations that qualify as exempt organization under section 501(c)(3) of the Internal
Revenue Code, or the corresponding section of any future federal tax code...”.

The recognized under the same group
ruling works in conjunction with . The
manages the housing and investments
whereas the coordinates the
membership activities and interaction of the members.

Activities

fulfilled its purposes by promoting
, and community service in a of
students. The holds events a to award

There was a rental agreement between and the
. The agreement stated that the organization can

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rent the _____ for its members. Each member is responsible for paying their portion of the rent directly to the _____. The _____ provides and maintains all furniture and furnishings for the _____ with printer and primary lounge. The _____ is responsible for all repairs and maintenance. The _____ is responsible for obtaining liability insurance.

The _____ had a " _____ " also known as a _____. This individual performed regular maintenance, such as cooking and cleaning for the _____ where the _____ was compensated through the _____.

When _____ retired, the _____ decided to provide additional income for _____. The amount would be matched by each member of the _____. The amount was considered a gift, gathered by all the members _____. The _____ contributed \$ _____ and _____ matched the gift with a contribution of \$ _____.

Form _____ was issued to _____.

Examination of Forms

The organization received revenues from dividends and interest from investments that generated from _____. They also received membership dues from _____. They incurred operating and payroll expenses during the period ended _____. The summary of revenues and expenses are displayed below:

Revenue and Expenses

Source	Revenue	Expenses
Membership Dues	\$ _____	
Total Revenue	\$ _____	
Fees		\$ _____

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Repair		
Retirement Party		
Federal and State Taxes		
Total Expenses		\$

During the examination, it was determined that the club properly reported nonmember income generated from investment income by preparing and filing Form

Below is a historical chart of the investment income reported over the last :

Activities-Members							
Membership Dues and Assessments							
Activities-Non-Member							
Investment Interest Income							
Total Non-Member Income							A
Total Investment Income							B
Total Non-Member Income and Investment Income							C
Total Income							
Non-Member % - A/C							
Total Non-Member and Investment % - B/C	%	%	%	%	%		

Based on conducting a analysis of gross receipts, it has been noted that the organization received % and %, during tax years ending and respectively.

The organization did not set aside any funds during the year under examination.

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

LAW:

Organizations exempt from federal taxes as described in IRC Section 501(c)(7) include 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.

Internal Revenue Code Section 512(a)(3)(A) - In the case of an organization described in paragraph (7), (9), or (17) of section 501(c), the term "unrelated business taxable income" means the gross income (excluding any exempt function income), less the deductions allowed by this chapter which are directly connected with the production of the gross income (excluding exempt function income), both computed with the modifications provided in paragraphs (6), (10), (11), and (12) of subsection (b). For purposes of the preceding sentence, the deductions provided by sections 243 and 245 (relating to dividends received by corporations) shall be treated as not directly connected with the production of gross income.

Internal Revenue Code section 512(a)(3)(B)- For purposes of subparagraph (A), the term "exempt function income" means the gross income from dues, fees, charges, or similar amounts paid by members of the organization as consideration for providing such members or their dependents or guests goods, facilities, or services in furtherance of the purposes constituting the basis for the exemption of the organization to which such income is paid. Such term also means all income (other than an amount equal to the gross income derived from any unrelated trade or business regularly carried on by such organization computed as if the organization were subject to paragraph (1)), which is set aside—

- for a purpose specified in section 170(c)(4), or
- in the case of an organization described in paragraph (9) or (17) of section 501(c), to provide for the payment of life, sick, accident, or other benefits, including reasonable costs of administration directly connected with a purpose described in clause (i) or (ii). If during the taxable year, an amount which is attributable to income so set aside is used for a purpose other than that described in clause (i) or (ii), such amount shall be included, under subparagraph (A), in unrelated business taxable income for the taxable year.

Section 1.501(c)(7)-1 of the Income Tax Regulations, relating to the requirements of exemption of such clubs under section 501(a), reads in part as follows:

- (a) 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 non-profitable purposes, but does not apply to any

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club if its net earnings inure to the benefit of any private shareholder. 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.

- (b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes and is not exempt under section 501(a). 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. However, an incidental sale of property will not deprive a club of its exemption.

Prior to its amendment in 1976, IRC Section 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 a section 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 further state:

- (a) Within this 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. These percentages supersede those provided in Revenue Ruling 71-17, 1971-1 C.B. 683.
- (b) Thus, a social club may receive investment income up to the full 35 percent of its gross receipts if no income is received from non-members' use of club facilities.
- (c) In addition, the Committee Reports state 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.
- (d) The Senate report also indicates that even though gross receipts from the general public exceed this standard, it does not necessarily establish that there is a nonexempt purpose. A conclusion that there is a nonexempt purpose will be

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based on all the facts and circumstances including, but not limited to, the gross receipts factor.

Revenue Ruling 58-589 sets forth the criteria for exemption under section 501(c)(7) of the Code and provides that a club must have an established membership of individuals, personal contacts, and fellowship. It also provides that, while the regulations indicate that a club may lose its exemption if it makes its facilities available to the general public, this does not mean that any dealings with nonmembers will automatically cause a club to lose its exemption. A club may receive some income from the general public, that is, persons other than members and their bona fide guests, or permit the general public to participate in its affairs, provided that such participation is incidental to and in furtherance of the club's exempt purposes, such dealings with the general public and the receipt of income there from does not indicate the existence of a club purpose to make a profit, and the income does not inure to club members.

Revenue Ruling 60-324 provides that a social club that made its social facilities available to the general public through its member-sponsorship arrangement cannot be treated as being operated exclusively for pleasure, recreation, or other nonprofitable purposes and the club no longer qualified for exemption under 501(c)(7) of the Code.

Revenue Ruling 66-149 provides that a social club is not exempt from federal income tax as an organization described in section 501(c)(7) of the code if it regularly derives a substantial part of its income from non-member sources such as, for example, dividends and interest on investments.

Revenue Ruling 68-119 provides that a club will not necessarily lose its exemption if it derives income from transactions with other than bona fide members and their guests, or if the general public on occasion is permitted to participate in its affairs, provided such participation is incidental to and in furtherance of its general club purposes and the income there from does not inure to members.

Revenue Procedure 71-17 sets forth guidelines for determining the effect of gross receipts derived from nonmember use of a social club's facilities on exemption under Internal Revenue Code Section 501(c)(7) and recordkeeping requirements. Failure to maintain such records or make them available to the Service for examination will preclude use of the minimum gross receipts standard and audit assumptions set forth in this Revenue Procedure.

If a club exceeds the 15/35% test, then it will maintain its exempt status only if it can show through facts and circumstances that "substantially all" of its activities are for "pleasure, recreation and other nonprofitable purposes."

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The following are important facts and circumstances to take into account to determine whether a club may maintain its exemption under IRC 501(c)(7):

- The actual percentage of nonmember receipts and/or investment income.
- Frequency of use of the club facilities or services by nonmembers. An unusual or single event (that is, nonrecurring on a year to year basis) that generates all the nonmember income is viewed more favorably than nonmember income arising from frequent use by nonmembers.
- Record of nonmember use over a period of years. A high percentage in one year by nonmembers, with the other years being within permitted levels, is viewed more favorably than a consistent pattern of exceeding the limits, even by relatively small amounts. (See S. Rept. 94-1318, 2d Sess., 1976-2 C.B. 597,599).
- Purposes for which the club's facilities were made available to nonmembers.
- Whether the nonmember income generates net profits for the organization. Profits derived from nonmembers, unless set aside, subsidize the club's activities for members and result in inurement within the meaning of IRC 501(c)(7).

-Set Aside Law

The unrelated business taxable income (UBTI) of organizations described in Internal Revenue Code sections 501(c)(7), 501(c)(9), 501(c)(17), or 501(c)(20), includes all gross income, less deductions directly connected with producing that income, but not including exempt function income. Also, the dividends received deductions for corporations are not allowed in computing UBTI, because they are not expenses incurred in producing income. Exempt function income is gross income from dues, fees, charges, or similar items paid by members for the purposes for which exempt status was granted to the organization. Exempt function income also includes income that is set aside for qualified purposes.

The investment income of these types of organizations generally is not taxed if it is set aside to be used for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals. In addition, for a section 501(c)(9), 501(c)(17), or 501(c)(20) organization, investment income is generally not taxed if it is

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set aside to provide for the payment of life, sick, accident, or other benefits. However, income on any amounts set aside that exceed the qualified asset account limit, figured under Code section 419A, is unrelated business income. Special rules apply to the treatment of existing reserves for post-retirement medical or life insurance benefits. Income derived from an unrelated trade or business may not be set aside and therefore cannot be exempt function income. In addition, any income set aside and later spent for purposes other than those specified must be included in unrelated business taxable income.

TAXPAYER'S POSITION:

position has not been provided.

GOVERNMENT'S POSITION:

An organization exempt from federal income taxes as described in IRC section 501(c)(7) must meet the gross receipts test in order to maintain its exemption. In order to meet the gross receipts test, an organization can receive up to thirty-five percent (35%) of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. Within this 35% amount, not more than fifteen percent (15%) of the gross receipts should be derived from the use of a social club's facilities or services by non-members.

After reviewing and comparing the _____ books and records with the Form _____ for period ending _____, the percent of gross receipts from investment income exceeded 35% for the year. It was also determined that previous years returns show investment income also exceeded 35%.

_____ has exceeded the 35% gross receipts (including investment income) standard for nonmember income on a continuous basis for at least _____ years. The nonmember receipts are earned throughout the year. There was no one single or unusual event that caused the _____ to exceed the threshold. _____ investment income during the year represents _____ % of the total of nonmember income.

During the interview process and review of books and records there was no indication by the organization records showing that the investment income was set aside to be used for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals.

historical revenue comparison

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Name of Taxpayer		Year/Period Ended

Activities-Members						
Membership Dues and Assessments						
Activities-Non-Member						
Investment Interest Income						
Total Non-Member Income						A
Total Investment Income						B
Total Non-Member Income and Investment Income						C
Total Income						
Non-Member % - A/C						
Total Non-Member and Investment % - B/C	%	%	%	%	%	

Based on the large percentages of gross nonmember income to total gross receipts of the _____, (i.e., _____% and _____%, as noted in the above table), which exceeds the limitation of 35% as set forth by IRC 501(c)(7) for each of these years, it is the government's position that the organization is no longer operated exclusively for the pleasure and recreation of its members and is not exempt under section 501(c)(7).

CONCLUSION:

The IRC Section 501(c)(7) tax exempt status of _____ should be removed from the group level exemption since the nonmember income received by the _____ exceeded 35% of the _____ total gross receipts for the years under examination.

Your books and records show that out of the \$ _____ of total income received, _____% of your total income is derived from non-member and investment income. Based on the fact that you received substantial income from investments, you have exceeded the 35% limitation.

_____ no longer qualifies for group level exemption under § 501(c)(7) of the Internal Revenue Code as your nonmember income has exceeded the _____% nonmember threshold as outlined in Public Law 94-568. Therefore, your exempt status under § 501(c)(7) of the Internal Revenue Code will be

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Name of Taxpayer		Year/Period Ended

removed from the group level exemption effective . Should this removal be upheld, Form must be filed starting with tax periods ending

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

Note: If you are planning to appeal the proposed removal from exemption, please refer to Publication 892 which is enclosed. Appeal should contain statement of facts declared true under penalties of perjury. Please refer to Publication 892, page 3 for example of statement signed under penalties of perjury.