



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

Date: May 28, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Number: 202238016
Release Date: 9/23/2022

UIL: 501.07-00

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear :

Why we are sending you this letter

This is a final determination that you don't 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 periods above. Your determination letter dated , 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 .

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.

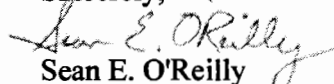
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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,



Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892



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

Date:
July 10, 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,

Sean O'Reilly by lm

Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Form 886-A, 6018

Pub 892, 3498

Form 886-A (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

ISSUES:

Whether the _____ is organized and operated exclusively under Internal Revenue Code (IRC) §501(c)(7) as a social club? And,

Whether or not _____ Activities and Revenues are in furtherance or its exempt purpose under section 501 (c)(7)?

FACTS:

The _____ is exempt as an organization described in IRC § 501(c)(7) to provide social, recreational and other related activities to its members.

Activities:

_____ is currently active. The purpose of the _____ for which the corporation is formed are benevolent and literary, to raise funds for _____, and to erect, establish, and maintain a _____ at _____ for the use and comfort of members of the _____ of the _____, and as a reading room and _____, to create and foster literary, social and _____ intercourse among _____ of _____ who are members of the _____ of _____; To publish matters of interest relating to the _____ of _____ and _____.

Revenue Sources:

_____ only source of revenue for tax year ending _____ and including year ended _____ is from investment income.

The organization reported the following sources and amounts of revenue on Form _____ for the periods ended _____ and subsequent year _____.

for period

CONTRIBUTIONS, GIFTS GRANTS & OTHER SIMILAR AMOUNTS		
1a	Federated Campaigns	
1b	Membership dues	
1c	Fundraising events	

Form 886-A (Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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1d	Related organization	
1e	Government grants (contributions)	
1f	All other contributions, gifts, grants & similar amounts not included above	
1g	Noncash contributions included in lines 1a - 1f	
1h	Total (Add lines 1a - 1f)	
	INVESTMENT INCOME	
3	Investment Income (including dividends, interest & other similar amount)	
4	Income from investment of tax-exempt bond proceeds	
5	Royalties	
7a	Gross Amount from sales of Assets & other than Inventory	
7b	Less Cost or other Basis and Sales expenses	
7c	Gain or Loss	
12	Total Revenue	

for period

	CONTRIBUTIONS, GIFTS GRANTS & OTHER SIMILAR AMOUNTS	
1a	Federated Campaigns	
1b	Membership dues	
1c	Fundraising events	
1d	Related organization	
1e	Government grants (contributions)	
1f	All other contributions, gifts, grants & similar amounts not included above	
1g	Noncash contributions included in lines 1a - 1f	
1h	Total (Add lines 1a - 1f)	
	INVESTMENT INCOME	
3	Investment Income including dividends, interest & other similar amount	
4	Income from investment of tax-exempt bond proceeds	
5	Royalties	
7a	Gross amounts from sales of assets other than inventory -	
12	Total Revenue	

As shown on Lines, of both returns filed, total Investment Income was reported at \$\$ and \$ respectively.

Form 886-A (Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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LAW

IRC § 501(c)(7) exempts from federal income tax "clubs" organized for pleasure, recreation, and other non-profitable purposes, substantially all the activities of which are for such purposes and not part of the net earnings of which inures to the benefit of any private shareholder.

IRC 501(c)(7) further establishes that the ordinary meaning of the term "club" implies that there must be club members, and that there must be a "commingling" of the members for social, recreational, or similar purposes. The commingling requirement has been stated in Rev. Rul. 58-589, 1958-2 C.B. 266, Rev. Rul. 70-32, 1970-1 C.B. 132, and Rev. Rul. 74-30, 1974-1 C.B. 137. Commingling is present if such things as meetings, gatherings and regular meeting FACILITIES ARE EVIDENT.

Rev. Rul. 58-589, 1958-2 C.B. 266, discusses the criteria for exemption under IRC 501(c)(7) and holds that a club must have an established membership of individuals, commingling, and fellowship to be a social club within the meaning of the statute. While this does not mean that a club cannot have artificial entities, such as corporations, as members, a federation composed completely of artificial entities (clubs) was held to be not exempt under IRC 501(c)(7) in Rev. Rul. 67428, 1967-2 C.B. 204. The rationale of that case was that a federation of clubs was a collection of artificial entities not capable of the kind of commingling required of the membership of exempt clubs. Thus, corporate memberships will not automatically disqualify a club as long as there are sufficient individual members to provide the requisite amount of fellowship and commingling. (See Rev. Rul. 74168, 1974-1 C.B. 139).

Section 1.501(c)(7) of the Regulations provides that, in general, the exemption extends to social and recreation clubs supported solely by membership fees, dues and assessments. However, a club that engages in a business, such as making its social and recreational facilities open to the general public, is not organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a).

Clubs must be organized for pleasure, recreation and other non-profitable purposes. The Service has held that these other nonprofitable purposes must be similar to providing pleasure and recreation. Sponsoring activities of a noncommercial nature can lead to denial or revocation if the activities are not similar to providing pleasure and recreation. In Rev. Rul. 63-190, 1963-2 C.B. 212, an organization was held not to qualify for exemption under IRC 501(c)(7) where it provided its members with sick and death benefits.

Social and recreational clubs were originally granted exemption in the Revenue Act of 1916. Congress stated that the reason for their exemption was that the experience of the Treasury Department had been that securing returns from clubs had been a source of expense and annoyance and had resulted in the collection of little or no tax. By contrast, the justifications offered

Form 886-A (Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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by Congress for the majority of other exempt classifications are that they provide some sort of community service or public benefit.

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 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.

Revenue Ruling 60-324 states by making its social facilities available to the general public the club cannot be treated as being operated exclusively for pleasure, recreation or other non-profitable purposes.

Revenue Procedure 71-17 sets forth the guidelines for determining the effect of gross receipts derived from the general public’s use of a social club’s facilities on exemption under IRC § 501(c)(7). Where nonmember income from the usage exceeds the standard as outlined in this Revenue procedure, the conclusion reached is that there is a non-exempt purpose and operating in this manner jeopardizes the organization’s exempt status.

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TAXPAYER'S POSITION

Taxpayer's Position has not been provided.

GOVERNMENT'S POSITION

Based on the examination results and the facts listed under the heading of this report, does not qualify for exemption as a social club described in IRC §501(c)(7) and Treas. Reg. §1.501(c)(7) which provides that in general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments.

The examination results and the information returns filed by for fiscal year ended show that % of the revenues came from investment income, trading securities. Therefore, it precludes the from tax exemption under IRC §1.501(c)(7). In addition, the following revenue rulings supports this conclusion.

Rev. Rulings. 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".

The organization has exceeded the % non-member threshold as outlined in Public Law 94-568, on a recurring basis during tax years ended and .

Sources of Income:

Per our revenue reconciliation from Form return and your books and records including: General Ledger, Balance Sheet, checking account, , we found investment income as the main source of income reported. The investment income was recorded on the following accounts

Based on Form and analysis of gross receipts, it was noted that the organization income received from investments (trading securities) for both fiscal years ended and respectively. Over 35 percent of its gross receipts was derived from non-members use of club facilities.

Form 886-A (Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Conduct of an Unrelated Business

The percentage guidelines and facts and circumstances tests apply only to nonmember use of club facilities. P.L. 94-568 does not allow a social club to include income from sources other than nonmember use of club facilities and investment income within the percentage guidelines and was not intended to allow a club to engage in activities previously forbidden. While the law was intended to increase the allowance of nonmember income from club facilities, it was not meant to eliminate the prohibition against engaging in nontraditional business. The Committee reports state:

It is not intended that these organizations should be permitted to receive, within the 15 or 35 percent allowances, income from the active conduct of businesses not traditionally carried on by these organizations.

The conduct of a business "not traditionally carried on" by social clubs should preclude exemption. An example of a business not traditionally carried on would be the sale of sporting goods to the general public from a location not physically attached to the club. This has all the characteristics of a business: solicitation of the general public, a recurring activity, and the conduct of an activity unrelated to the exempt function of a social club. Current thinking within the Service, although not yet finalized, is that the phrase "not traditionally carried on" means, in this context, not normally and usually engaged in by social clubs generally (as opposed to the particular club in question).

However, where an activity is recurring, or the club obtained property with the motive of generating a profit instead of furthering its exempt purposes, then it appears that the resulting income would not be the type of income Congress intended to exclude and would jeopardize the club's exempt status.

Form 886-A (Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Membership:

In addition, _____ is not organized as a membership organization. This in itself would preclude _____ from tax exemption under IRC §1.501(c)(7) and as noted under Rev. Rul. 58-589, 1958-2 C.B. 266, discusses the criteria for exemption under IRC 501(c)(7) and holds that a club must have an established membership of individuals, commingling, and fellowship to be a social club within the meaning of the statute. While this does not mean that a club cannot have artificial entities, such as corporations, as members, a federation composed completely of artificial entities (clubs) was held to be not exempt under IRC 501(c)(7) in Rev. Rul. 67428, 1967-2 C.B. 204.

CONCLUSION

_____ no longer qualifies for exemption under § 501(c)(7) of the Code since your nonmember income has exceeded the _____ % nonmember threshold on a continuing basis. Therefore, it is proposed that your exempt status under § 501(c)(7) of the Code be revoked effective _____.

Should this revocation be upheld, Form _____ must be filed starting with tax periods beginning _____.