



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
PO Box 2508
Cincinnati, OH 45201

Date:
02/08/2023
Employer ID number:

Tax years:

Person to contact:

Number: **202318022**
Release Date: 5/5/2023

UIL: 501.07-00

Dear :

This letter is our 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). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437
Redacted Letter 4034
Redacted Letter 4038



Department of the Treasury
Internal Revenue Service
PO Box 2508
Cincinnati, OH 45201

Date: 12/07/2022

Employer ID number:

Person to contact:

Name:

ID number:

Telephone:

Legend:

X = date

Y = state

b = number 1

c = number 2

d = number 3

e = number 4

f = number 5

g = number 6

UIL:

501.07-00

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(7). This letter explains the reasons for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under IRC Section 501(c)(7)? No, for the reasons stated below.

Facts

You submitted Form 1024, Application for Recognition of Exemption Under Section 501(c)(7) of the Internal Revenue Code.

You state you were incorporated on X, in the state of Y. You state you have the necessary organizing document, that your organizing document limits your purposes to one or more exempt purposes within the meaning of the IRC Section 501(c)(7)

You offer your club's facilities for rent to conduct weddings, birthdays, anniversaries, graduations, and any event that needs the venue; you will cater during these events. You operate a bar where members can purchase drinks. You allow non-members to be at the bar if accompanied by a member; however, non-members are not allowed to order drinks.

You sell dinners a couple times a month where the public can access the facility to purchase meals. You offer dinners once a week to the public.

Letter 4034 (Rev. 01-2021)
Catalog Number 47628K

You state all your funding comes from renting of the hall, catering, and the bar. You use all monies received from your activities to run the facility and donate to local sport teams, local law enforcement agencies, and scholarships for students in the local school district. You state you advertise your services to the public on a social media platform

You have a total of b members; of which c are social members and d are beneficial members.

You state the organization will dissolve if memberships becomes less than e. After debts are satisfied, all remaining assets will be divided amongst the active members who have had active membership for f years.

You state g percent of your gross receipts are from non-member in the use of your facilities.

You offer death benefits for members who have had their membership for ninety days.

Law

IRC 501(c)(7) provides for the exemption from federal income tax of clubs organized and operated 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.

Treasury Regulation Section 1.501(c)(7)-1(b) states 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 supported solely by membership fees, dues, and assessments.

Revenue Ruling 58-589, 1958-2 C.B. 266 discusses the criteria for exemption under section 501(c)(7) of the Code and holds that a club must have an established membership of individuals, personal contacts, and fellowship to be a social club within the meaning of the statute.

Revenue Ruling 69-635, 1969-2 C.B. 126 describes an automobile club whose principal activity is rendering automobile services to its members but has no significant social activities does not qualify for exemption under section 501(c)(7) of the Code.

Revenue Ruling 74-30, 1974-1 C.B. 137 describes a flying club of limited membership that provides flying privileges solely for its members, assesses dues based on the club's fixed operating costs and charges fees based on variable operating expenses, and whose members are interested in flying as a hobby, constantly commingle in informal meetings, maintain and repair the aircraft owned by the club, and fly together in small groups qualifies for exemption under section 501(c)(7) of the Code.

Senate Report No. 94-1318 (1976) states section 501(c)(7) was amended in 1976 by Public Law 94-568 to provide that section 501(c)(7) organizations could receive some outside income without losing their exempt status. Senate Report No. 94-1318 (1976), 2d Session, 1976-2 C.B. 597, at page 599 explains that a social club 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. It is also intended that 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. In effect, the latter modification increases from 5 percent (Rev. Proc. 71-17, 1971-1 C.B. 683) to 15 percent the proportion of gross receipts a club may receive from making its club facilities available to the general public without losing its tax-exempt status. The Senate Report also states that it is not intended that these organizations should be permitted to receive, within the 15 percent or 35 percent allowances, income from the active conduct of businesses not traditionally carried on by these organizations.

Allied Trades Club v. Commissioner, 23 T.C. 1017 (1955), aff'd, 228 F. 2d 906 (3rd Cir.1956) where the court states: "(The death benefit activity) could not be classified as an operation for pleasure, recreation, or social purposes and, therefore, the petitioner was not operating exclusively for such purposes."

Application of law

Your activities where you rent your facilities and sell drinks and dinners are primarily for the purpose of funding your organization. Your organization is not financially supported by membership fees and is not operating exclusively for pleasure and recreation. Your members inure the benefit of your net earnings because you offer your members death benefits. Therefore, you are not organized and operating as a social or recreational club as described in IRC 501(c)(7) and Treas. Reg. Section 1.501(c)(7)-1(b).

You do not meet the criteria described in Rev. Rul. 55-589 because you do not have a substantial amount of personal contact and fellowship. You are similar to the organization described in Rev. Rul. 69-365 because you have no significant social activities that engage in pleasure and recreation. You are not similar to the organization describe in Rev. Rul. 74-30 because you do not have members who engage in a common interest and commingling. You exceed the 15 percent allowance on gross receipts from non-member income when making your club available to the general public; as described in the Senate Report No, 94-1318, your tax-exemption claim is disregarded. You are similar to the organization described in Allied Trades Club v. Commissioner because the providing of death benefits to members is not a function of a social club.

Conclusion

You do not meet the criteria of a social club because your members do not engage in recreation or pleasure. You are not financially supported by membership fees and exceed the 15 percent allowance for gross receipts from non-member income. The providing of death benefits to members is not a function of a social club Therefore, you do not qualify for tax-exemption under IRC Section 501(c)(7).

If you agree

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

If you don't agree

You have a right to protest if you don't agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, Power of Attorney and Declaration of Representative, with us if they haven't already done so. You can find more information about representation in Publication 947, Practice Before the IRS and Power of Attorney.

We'll review your protest statement and decide if you gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

Where to send your protest

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Mail Stop 6403
PO Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Mail Stop 6403
Cincinnati, OH 45202

You can also fax your protest and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that they received it.

You can get 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 listed at the top of this letter.

Contacting the Taxpayer Advocate Service

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 if 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.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements