



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

Date:
November 3, 2022
Taxpayer ID number (last 4 digits):

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Last day to file petition with United States
Tax Court:

Number: 202318023
Release Date: 5/5/2023

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: Revenue Ruling 58-589 provides that a club exempt under IRC Section 501(c)(7) must have a membership of individuals, personal contacts, and fellowship. A commingling of members must play a material part in the activities of the organization. During the year under examination, your organization did not have meetings or gatherings that involved personal contact among its members. In addition, an organization described in IRC Section 501(c)(7) may not receive more than 35% of its gross receipts, including investment income, from sources outside of its membership in order to maintain its tax-exempt status. Your gross receipts from sources outside of your membership exceeded the 35% limit. 35% is the overall limit and included in the 35% not more than 15% of the gross receipts can be derived from the use of a social club's facilities or services by non members. Your gross receipts from use of your club's facilities by non members also exceeded the 15% limit.

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 **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 can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. You can download a fillable petition or complaint form and get information about filing at each respective court's website listed below or by contacting the Office of the Clerk of the Court at one of the addresses below. Be sure to include a copy of this letter and any attachments and the applicable filing fee with the petition or complaint.

You can eFile your completed U.S. Tax Court petition by following the instructions and user guides available on the Tax Court website at ustaxcourt.gov/dawson.html. You will need to register for a DAWSON account to do so. You may also file your petition at the address below:

United States Tax Court
400 Second Street, NW
Washington, DC 20217
ustaxcourt.gov

The websites of the U.S. Court of Federal Claims and the U.S. District Court for the District of Columbia contain instructions about how to file your completed complaint electronically. You may also file your complaint at one of the addresses below:

US Court of Federal Claims
717 Madison Place, NW
Washington, DC 20439
uscfc.uscourts.gov

US District Court for the District of Columbia
333 Constitution Avenue, NW
Washington, DC 20001
dcd.uscourts.gov

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.

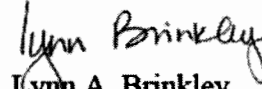
Find tax forms or publications by visiting [IRS.gov/forms](https://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676). If you have questions, you can call the person shown at the top of this letter.

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.

You may fax your documents to the fax number shown above, using either a fax machine or online fax service. Protect yourself when sending digital data by understanding the fax service's privacy and security policies.

Keep the original letter for your records.

Sincerely,



Lynn A. Brinkley

Acting Director, Exempt Organizations Examinations

Enclosures:

This letter, Publication 1, Publication 594, & Publication 892

cc:



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

Date:
JUNE 29, 2022
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 [ENTER CODE SECTION] 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,

Lynn A. Brinkley
Acting Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018
Publication 892
Publication 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

ISSUE:

Does _____ continue to qualify for exemption under IRC (IRC) § 501(c)(7)?

FACTS:

_____ (_____ hereafter) is exempt organization described in IRC § 501(c)(7). _____ was formed as a nonprofit corporation in the state of _____. The _____ filed an amended articles of incorporation _____, and was given their certificate of reorganization _____ updated their Articles of Incorporation on _____. _____, Article III, states " The purpose for which the Corporation is formed is to provide, maintain, own, and hold the title to real estate, should real estate be owned and available for personal use, in _____, _____ as a place of residence and as a chapter house for the active members of the _____ of _____ (hereinafter referred to as "Chapter"), located at _____, in the city of _____, _____, said _____ being a _____, and said Chapter there of being connected with _____ and under the supervision of _____, and to promote and encourage by any and all lawful means the general welfare, education and citizenship of the active members of said Chapter and the alumni thereof; and to have and exercise any and all of the rights, privileges, powers, capacities, and authorities, expressed and implied, conferred upon and granted to nonprofit corporations organized under the Act and Section 501(c)(7) of the United States Internal Revenue Code of 1986, or the corresponding section of any future federal tax code (the "Internal Revenue Code"), as may be necessary, convenient, and expedient in the accomplishment and furtherance of the Corporation's purposes for and on behalf of said Chapter and alumni thereof."

_____ was suspended in _____ for misconduct and lost all rights and privileges associated with being a recognized student organization at _____. Since its suspension in _____, _____ has leased its house to an unrelated _____ which does not have members of _____. During the year at issue, the only activities of _____ involved leasing the house to nonmembers and fundraising for improvements to the house. _____ has not established that any of the fundraised amounts came from _____ members. No other activities were conducted by _____ during the year. _____ did not expend any funds for recreational or social purposes. _____ plans to lease the house to its members in _____.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Below is a summary of gross receipts received by _____ in recent years:

Gross Rents (unrelated business)	\$	\$	\$	\$
Program Service Revenue	\$	\$	\$	\$
Investment Income	\$	\$	\$	\$
Contributions and grants	\$	\$	\$	\$

LAW

Section 501(c)(7) of the Code provides for federal income tax exemption for clubs organized for pleasure, recreation, and other nonprofitable purposes, or for clubs where substantially all the activities are for such purposes and no part of the net earnings inures to the benefit of any private shareholder.

Revenue Ruling 58-589, C.B. 1958-2, 266, sets forth the criteria for exemption under section 501(c)(7) of the Code and provides that a club must have a membership of individuals, personal contacts, and fellowship. A commingling of members must play a material part in the activities of the organization. *Id.*

A social or recreational club must provide the opportunity for personal contact between its members and the members must be bound together by a common objective of pleasure, recreation, and other non-profitable purposes. See Rev. Rul. 74-30, 1974-1 C.B. 137, Rev. Rul. 69-632, 1969-2 C.B. 126, and Rev. Rul. 70-32, 1970-1 C.B. 132,

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).

Congress amended section 501(c)(7) of the Code in 1976 to liberalize prior limitations on the portion of income social clubs could receive from nonmember use of their facilities and from investment income without jeopardizing their exempt status. In particular, the enactment of Public Law 94-568 in 1976 changed the term "exclusively" to "substantially all". This change allows for an insubstantial amount of a club's income to come from activities that do not further the club's exempt purposes. Activities which constitute an unrelated trade or business would not further the club's exempt purposes, and they include the use of the club facilities by the general public.

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

Senate Report No. 94-1318 (1976), 2d Session, 1976-2 C.B. 597, at page 599 defines “substantially all.” It specifies that a social club may not receive more than 35% of its gross receipts, including investment income, from sources outside of its membership in order to maintain its tax-exempt status. It also states that 35% is the overall limit and included in the 35% not more than 15% of the gross receipts can be derived from the use of a social club's facilities or services by non members. The Senate Report defines the term “gross receipts” as those receipts from the traditional, normal, and usual activities of the club. Gross receipts include membership fees, dues, and assessments; charges, admissions, investment income (such as Interest, dividends, rents and similar receipts) and normal recurring gains on investments. The Senate Report provides that the decision in each case as to whether substantially all of an organization's activities are related to its exempt purposes is to continue to be based on all the facts and circumstances.

Revenue Ruling 56-305, 1956-2 C.B. 307 provides that an organization that owns and operates a building and conducts club activities for the benefit of a tax-exempt lodge may itself be exempt as a social club.

Revenue Ruling 66-149, 1966-1 C.B. 146 provides that a social club is not exempt from federal income tax under Section 501(c)(7) of the Code if it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments which the club owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for the club.

Revenue Procedure 71-17, 1971 WL 26186, 1971-1 C.B. 683 sets forth guidelines for determining the effect of gross receipts derived from use of a social club's facilities by the general public on the club's exemption from federal income tax under section 501(c)(7) of the Code. The club must maintain books and records of each such use and the amount derived therefrom.

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.

Taxpayer's position

Organization stated that they plan to start renting to _____ members in _____, They have been in the process of rebuilding after being invited back by _____. They currently have _____ members that attend the _____. They currently are not renting the house to the members, but plan to sometime in the future.

Government's Position

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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During the tax year ended _____, there is no evidence that _____ operated as a club consistent with section 501(c)(7). _____ was suspended from _____ up until _____. _____ does not have meetings or gatherings that involve personal contact among its members. _____ does not use its house so that members may gather to engage in fellowship. _____ does not afford opportunities for personal contacts among its members. _____ does not expend money on social or recreational purposes. _____ did not provide opportunities for its members to engage in fellowship and commingling. Fellowship and commingling were not a material part of _____ operations. Accordingly, _____ is not a “club” within the meaning of section 501(c)(7) of the Code.

In addition, _____ has leased the Chapter house to an unrelated sorority since _____. The rents received are significantly greater than 15%, or even 35%, of _____ gross receipts during the year at issue and in prior years. There is no evidence that gross receipts came from members of _____ during the year at issue. _____ leased out its house in order to make a profit. _____ leased out its house to nonmembers continuously over a period of several years. _____ plans to lease the house to its members in _____. _____ nonmember gross receipts are significant and recurring. _____ has not established that substantially all of its activities were for pleasure, recreation, and other nonprofitable purposes. _____ is not an organization described in section 501(c)(7).

Conclusion

_____ no longer qualifies for exemption under section 501(c)(7) of the Code. Therefore, it is proposed that _____ exempt status under section 501(c)(7) of the Code be revoked effective _____.

Should this revocation be upheld, Form 1120 must be filed starting with tax periods ending _____.