

- Letter

"The exemption provided by Section 501(a) for organizations described in Section 501(c)(7) applies only to clubs which are

organized 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."

The question of the amount of non member income and investment income a social club could receive without jeopardizing its tax exempt status was treated in Public Law 94-568, 94th Congress, H.R. 1144 and its accompanying Committee Reports, specifically Senate Report No. 94-1318 2d Session. See 1976-2 C.B. 596, 602. Briefly, an exempt social club may receive only up to 35% of its gross receipts from non member sources. This is further defined as to allow not more than 15% of the gross receipts to be derived from the use of the club's facilities or services by the general public thereby allowing a maximum of 20% of the gross receipts to be derived from investment income.

Based upon the information submitted it is apparent that your investment income alone exceeds the 35% limitation on non member income established for exempt social clubs. Therefore, we have concluded that you do not qualify as an organization described in Section 501(c)(7) of the Code since a substantial part of your receipts are derived from sources other than members.

You are required to file Federal income tax returns annually on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this proposed adverse determination letter, appeal to the Regional Office through this Key District Office. Your appeal should contain the information described under Regional Office Appeal in the enclosed Publication 898, and should be mailed to this office. The Regional Office will let you know what action they take, and will set a date and place for any conference to be held.

This is a determination letter.

Sincerely yours,

Acting District Director