

AUG 29 1984

CERTIFIED MAIL

Dear Sir or Madam:

We have considered your application for recognition of exemption as an organization described in Section 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you were formed under Articles of Incorporation in the State of [REDACTED]. Your stated purposes are to operate as a non-profit charitable and educational organization to protect and promote the best interests of the unit owners at [REDACTED]; to promote a spirit of community among the unit owners and to conduct any and all lawful affairs not specifically stated.

The activities conducted by the organization are to hold meetings of the unit owners to discuss concerns with respect to sale of units to a [REDACTED] real estate partnership; seek legal advice with respect to sale and attempt to negotiate an agreement with the real estate partnership for broader voting rights for the unit owners.

Your membership consists of two classes: (A) unit owners who pay initial fee of \$[REDACTED] or those members of your ad hoc unincorporated group of unit owners in good standing during the unincorporated period. Unit owners, who did not pay the stated initial fee nor belonged to the prior unincorporated group, may apply for category (B) membership.

Your funds are derived from dues and assessments of members and your expenses are for attorneys fees and miscellaneous administrative costs.

Section 501(c)(7) of the Code provides for exemption for clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all the activities of which are for such purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
		[REDACTED]	[REDACTED]				
Surname		[REDACTED]	[REDACTED]				
Date		8/29/84	8/29/84				

Section 1.501(c)(7)-1(a) of the Income Tax Regulations states that the exception provided by Section 501(c) 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 club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exception extends to social and recreation clubs which are supported solely by membership fees, dues and assessments. The Service has consistently held, and has been upheld by the courts in the position that "other non-profitable purposes" must be similar to pleasure and recreation. (Revenue Ruling 69-635, 1969-2 C.B. 126; Keystone Automobile Club v. Commissioner 181 F. 2d 637 (1950)).

Section 501(c)(7) was amended in 1976 by Public Law 94-562, which introduced into the law the present statutory requirement that "substantially all" of a tax exempt club's activities be in furtherance of "pleasure, recreation, and other non-profitable purposes" in lieu of the requirement, which had existed under Section 501(c)(7) prior to amendment, that the organization must be organized and operated "exclusively" for such purposes. However, the intent was to liberalize allowance of income from non-member sources in furtherance of or in connection with social activities, not to dilute the service's position as to the general nature of social clubs or the proper treatment of such organizations. See Report of the Joint Committee on Taxation, 97th Congress, 1st Session, 1981-2 C.B. 198 specifically stating the amendment was not intended to permit social clubs to forgo their traditional purpose of providing pleasure and recreation, but to permit them to receive income from sources traditionally carried on by social clubs.

In Revenue Ruling 74-17, Cumulative Bulletin 1974-1, page 130, it was held that an organization formed by unit owners of a condominium housing project to provide for the management, maintenance and care of the common areas of the project, as defined by state statute with membership agreements paid by the unit owners does not qualify for exemption under Section 501(c)(4) of the Internal Revenue Code.

Revenue Ruling 73-506, Cumulative Bulletin 1973-1 page 170 described a non-profit organization formed to represent member-tenants of an apartment complex in negotiations with landlords, an institution, and before local and Federal regulatory agencies with respect to matters of mutual concern to the tenants does not qualify for exemption under Section 501(c)(4) of the Code.

[REDACTED]

Your corporation is not organized for pleasure, recreation or other similar non-profit purposes as intended under Section 501(c)(7) of the Code. Your corporation is similar to the organization described in Revenue Ruling 73-306, cited above, which provides particular services negotiated for the benefit of the individual unit owners of [REDACTED]. The funds of your organization are expended to produce a collective and individual benefit to the members of the corporation.

In accordance with the above information, you do not qualify for recognition of exemption from Federal income tax under Section 501(c)(7) or 501(c)(4) of the Code nor any other subsection of 501(c) of the Code. You are therefore required to file Federal income tax returns.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional office conference staff. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional office, or at your request, at any mutually convenient District office. If we do not hear from you within 60 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]
District Director

Enclosure: Publication 892