



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
TEGE/EXEMPT ORGANIZATIONS
1100 Commerce Street – MC:4900 DAL
Dallas, Texas 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

501.07-00

Date: July 30, 2010

Release Number: **201322044**

Release Date: 5/31/2013

Legend:

ORG- Organization Name

Xx - Date

Taxpayer Identification Number:

Form:

ORG
ADDRESS

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear :

In a determination letter dated September 19xx, you were held to be exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(7) of the Code. Accordingly, your exemption from Federal income tax is revoked effective January 1, 20xx. This is a final adverse determination letter with regard to your status under section 501(c)(7) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. You signed Form 6018-A, *Consent to Proposed Action*, agreeing to the revocation of your exempt status under section 501(c)(7) of the Code.

You are required to file Federal income tax returns for the tax period(s) shown above. If you have not yet filed these returns, please file them with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted, or unless an examiner's report for income tax liability was issued to you with other instructions. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the Office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal Appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free, 1-877-777-4778, and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

Nanette M. Downing
Director, EO Examinations

ORG

Form 886-A Attachment to Notice of Proposed Revocation 20xx Calendar Tax Year

Legend:

ORG – Organization Name xx- Date

State –Name of State

Issue:

Whether ORG, continues to qualify for exemption under IRC Section 501(c)(7).

Facts:

ORG, was incorporated as a non stock corporation in the State in September 19xx. It was created to promote and encourage the games of golf, tennis and other sports and to promote social camaraderie. In furtherance of its exempt purposes, Org owns leases and maintains a club house, golf course and recreation facilities for its members and the general public.

Per the interview, the Treasurer stated that during the past few years, membership has been dwindling and the organization has had to use its savings to help defray the cost of operating the golf course. Examination of the books and records for the tax year 20xx determined that a percent of ORG's gross receipts were received from nonmember sources. The 20xx Form 990 indicated that nonmember income accounted for a percent of the organization's gross receipts.

Law and Analysis:

IRC Section 501(c)(7) provides for the exemption from federal income tax of clubs organized and operated for pleasure, recreation, and other non-profitable purposes, substantially all 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.

Treas. Reg. Section 1.501(c)(7)-1 (a) essentially repeats the language of section 501(c)(7) of the Code but also states that, in general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Public Law 94-568 (1976) amended section 501(c)(7) of the Code to allow social clubs to receive some outside income without jeopardizing their exempt status. Specifically, the Senate Finance Committee Report states a social club is permitted to receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its exempt status. However, within this 35% limit, not more than 15% of gross receipts should be derived from the use of a social club's facilities or services by the general public.

ORG

Form 886-A Attachment to Notice of Proposed Revocation
20xx Calendar Tax Year

Revenue Ruling 60-324 states in part that a social club exempt from Federal income tax under IRC 501(c)(7) may lose its exemption if it makes its club facilities available to the general public on a regular, recurring basis since it may then no longer be considered to be organized and operated exclusively for its exempt purpose.

Revenue Ruling 68-638 states in part that a club formed to maintain a country club for the promotion and enjoyment of golf for its members, receives, as host of an annual golf tournament substantial income from the public, and uses the income for club operating expenses and improvements is not exempt under IRC section 501(c)(7).

Revenue Ruling 69-219 states in part that a social club that regularly holds its golf course open to the general public, charging established green fees that are used for maintenance and improvements of club facilities is not exempt under IRC section 501(c)(7).

Government's Position:

ORG, . has failed to meet the 15 percent limitation regarding gross receipts from non member sources. Based on the facts of the examination, the Service has determined that ORG, is no longer operated solely for the benefit of its members. The organization's unrelated business income from nonexempt activities has increased each year, resulting in failure to qualify for exempt status under IRC section 501(c)(7).

Conclusion:

The Service has determined that the exempt status of ORG, is revoked effective January 1, 20xx.