



**Department of the Treasury
Internal Revenue Service**

P.O. Box 2508
Cincinnati, OH 45201

Number: **201943025**
Release Date: 10/25/2019

Date:
July 31, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

UIL: 501.07-05, 501.07-06

Dear :

This letter is our final determination that you don't qualify for tax-exempt status under Section 501(c)(7) of the Internal Revenue Code (the Code). 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 federal income tax returns for the tax years listed at the top of this letter using the required form (also listed at the top of this letter) within 30 days of this letter unless you request an extension of time to file.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection (as required under Section 6110 of the Code) after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Notice 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 contact the person listed at the top of this letter. If you have questions about your federal income tax status and responsibilities, call our customer service number at 1-800-829-1040 (TTY 1-800-829-4933 for deaf or hard of hearing) or customer service for businesses at 1-800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:

Notice 437

Redacted Letter 4034, *Proposed Adverse Determination under IRC Section 501(a) Other Than 501(c)(3)*

Redacted Letter 4040, *Final Adverse Determination under IRC Section 501(a) Other Than 501(c)(3) - No Protest*



Department of the Treasury
Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Date:
June 4, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = Date
C = Event
D = State

UIL:
501.07-05
501.07-06

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 Section 501(c)(7) of the Code? No, for reasons stated below.

Facts

You were chartered as an unincorporated association on B in the state of D. You were previously exempt under Section 501(c)(7) of the Code as a part of a group ruling, but your exempt status was automatically revoked for failing to file a Notice or Return for three consecutive tax years.

Your Bylaws state that your purposes include recognizing outstanding women educators, building fraternal fellowship among women in education, promoting high standards of education, promoting educational and charitable activities, providing scholarships, and contributing to world understanding, goodwill, and peace through an international fellowship of women educators united in the ideals of education.

You dedicate thirty percent of your time each year to prepare for the C event. You did not describe any other activities you conduct. The C event is a city-wide public event that honors outstanding educators. Participants at this event include your club members and members of the public. Your largest source of revenue is from the sale of the C banquet tickets. Revenue from ticket sales are used to pay for all expenses incurred for the event and to fund scholarships.

The financial data you provided indicated that for the last three years approximately percent of your revenue was derived from the sale of tickets to the C banquet, which you attribute to revenue received from the general public. In the most recently completed tax year, percent of your receipts were expended for the C banquet.

Law

Section 501(c)(7) of the Code provides for the exemption from federal income tax for clubs organized 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(a) states that 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.

Treas. Reg. Section 1.501(c)(7)-1(b) states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under Section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes.

Public Law 94-568 allows clubs to receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership. Within this 35 percent limit, no more than 15 percent of gross receipts may be derived from nonmember use of the club facilities and/or services. If a club's gross receipts exceed one or both limits, then the club may still be able to qualify for exemption provided that "substantially all" of its activities are for pleasure, recreation, and other nonprofitable purposes. In short, non-member income is acceptable only if it is incidental, trivial or nonrecurrent to its tax-exempt purpose.

Revenue Ruling 58-589, 1958-2 C.B. 266, sets the criteria for determining if an organization qualifies for exemption as described in Section 501(c)(7) of the Code. It explains how income from non-member sources used to reduce the cost of providing services to members. It further clarifies that to qualify for income tax exemption, a social club should not advertise its facilities for non-member patronage since this would be prima facie evidence it was engaging in business.

Rev. Rul. 66-149, 1966-1 CB 146, held that a social club was not exempt from federal income tax as an organization described in Section 501(c)(7) of the Code because it regularly derived a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments.

In Polish American Club, Inc. v. Commissioner, T.C. Memo 1974-207 (1974), the court decided that the club is not qualified for exemption under Section 501(c)(7) of the Code because its non-member income was substantial, recurring and the taxpayer was not operated exclusively for pleasure, recreation and other nonprofit purposes.

Application of law

You are not described under Section 501(c)(7) of the Code. Treas. Reg. Sections 1.501(c)(7)-1(a) and (b) allow for an organization to engage in business transactions with the general public provided that those transactions are incidental to the organization's exempt purposes, infrequent in occurrence, and trivial in value. However, your gross receipts from the general public account for a significant portion of your annual total gross receipts. In fact, your gross receipts from non-members were consistently greater than percent of the total

gross receipts received each year. These amounts exceed the 15 percent and the 35 percent gross receipts limits for non-member income as permitted per Public Law 94-568.

You fail to meet the criteria under Rev. Rul. 58-589 because you benefit from the significant revenues generated from non-members. You stated that receipts from ticket sales for the C event are used to cover all expenses incurred by you in association with this event. If preparing and attending for this event are considered recreation and pleasure activities, then you effectively use non-member income to finance your social activities or use that income to reduce the cost of providing benefits to members. In other words, income from members alone may not have been sufficient for you to carry out your social activities.

You operate similarly to the organizations described in Rev. Rul. 66-149 and Polish American Club, Inc., which were denied exemption under Section 501(c)(7) of the Code because of substantial revenue received from non-members. In your case, the gross receipts you receive from the general public are significant, recurrent, and not incidental to your exempt purposes. Therefore, you are precluded from exemption under Section 501(c)(7) of the Code.

Conclusion

You are not operated exclusively for pleasure, recreation, and other nonprofitable purposes as described in Section 501(c)(7) of the Code because you are funded primarily through donations from non-members. You receive significant revenues from non-members which are recurring and not incidental to your exempt purposes. Consequently, you do not qualify for exemption under 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 Decision 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
P.O. 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