



Release Number: 202237015  
Release Date: 9/16/2022  
UIL Code: 501.07-00

Date: May 10, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:  
Name:  
ID number:  
Telephone:  
Fax:

## CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear

### Why we are sending you this letter

This is a final determination explaining why your organization doesn't qualify as an organization described in Internal Revenue Code (IRC) Section 501(c)(7) for the tax periods above.

In the future, if you believe your organization qualifies for tax-exempt status and would like a determination letter from the Internal Revenue Service, you can request a determination by filing Form 1024, Application for Recognition of Exemption Under Section 501(a), or Form 1024-A, Application for Recognition of Exemption Under Section 501(c)(4) of the Internal Revenue Code, (as applicable) and paying the required user fee.

Our adverse determination as to your exempt status was made for the following reasons: You have not established that you are operated substantially for pleasure and recreation of your members or other non-profitable purposes and no part of the earnings inures to the benefit of any private shareholder within the meaning of IRC Section 501(c)(7). You have exceeded the non-member income test for tax year ending

We'll notify the parent organization (as permitted by law) of our determination that you aren't an organization described in IRC Section 501(c)(7) and are no longer covered under their group ruling exemption.

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 [www.irs.gov](http://www.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 may file an action for declaratory judgment under the provisions of IRC Section 7428 in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims or 3) the United States District Court for the District of Columbia.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. You may write to the courts at the following addresses:

United States Tax Court 400 Second Street, NW Washington, DC 20217	U.S. Court of Federal Claims 717 Madison Place, NW Washington, DC 20439	U.S. District Court for the District of Columbia 333 Constitution Ave., N.W. Washington, DC 20001
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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](http://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**

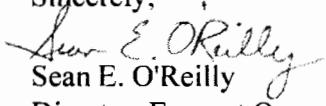
Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

Find tax forms or publications by visiting [www.irs.gov/forms](http://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.

Keep the original letter for your records.

Sincerely,  
  
Sean E. O'Reilly  
Director, Exempt Organizations Examinations

Enclosures:  
Publication 1  
Publication 594  
Publication 892

cc:



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

Date:  
10/18/2019  
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:  
11/18/2019

**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 501(C)(7) for the periods above.

**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**

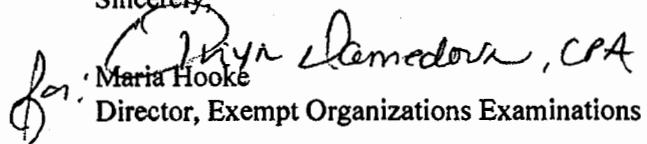
The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit [www.taxpayeradvocate.irs.gov](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

**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](http://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,

  
for Maria Hooke  
Director, Exempt Organizations Examinations

Enclosures:

Forms: 886-A, 6018

Publications: 892, 3498

Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

**ISSUES:**

Whether the ( ) is organized and operated exclusively under Internal Revenue Code (IRC) §501(c)(7) as a social club? And,

Whether or not Activities and Revenues are in furtherance or its exempt purpose under section 501 (c)(7)?

**FACTS:**

The corporation is exempt as an organization described in IRC § 501(c)(7) to provide social, recreational and other related activities to its members. is listed as a subordinate of parent organization.

On a letter dated , ( -parent organization) was given tax exemption under IRC §501(c)(7), group number . On , was established and added as a subordinate of the

**Articles of Incorporation:**

The Articles of Incorporation of states in part that, they will be "formed to purchase or lease, and maintain, exclusively for pleasure, recreation another similar no-profitable purposes, a house for the use and comfort of the members of at and it's , and members and of other chapters of located at other colleges and universities". In addition, "They will provide quarters for such members and for pleasure and recreation and for and in the ; to bind such members and together by a common objective directed toward pleasure, recreation or similar non-profitable purposes, and provide the atmosphere of a club for and among them".

Article III states, "in the event of dissolution of the corporation, all its properties not needed for the payment of its debts and obligations shall be transferred and conveyed to such corporation or organizations with similar purposes and activities as the Board of Directors, in its discretion, shall determine; provided however, such corporation or organization shall not engage, otherwise, as insubstantial part of its activities, in activities which are themselves not keeping with the tax exempt purpose of this corporation."

Article IV states, "The corporation shall have no member or membership".

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Article VI, lists the initial Board of Directors of the corporation as follows:

## **Bylaws:**

In the preface of the Bylaws it is stated that the Corporation has no member or membership, and the Directors are to elect their successors at the annual business meetings or fill vacancies which may occur between such meetings.

Article I states, the annual meeting will be held on the first in each year.

Article II states, the Board of Directors shall determine the number of Directors to be elected, which shall be not less than \_\_\_\_\_ nor more than \_\_\_\_\_. The Secretary shall keep all the records of the corporation and shall prepare and preserve minutes of all the meetings of the Board of Directors. The Treasurer shall have custody of all the funds of the corporation and keep them in the designated depository, shall disburse funds in accordance with the directions of the board of Directors.

Article V list the day and month of the corporation fiscal year as ending on the      day of      of each year.

## **Relationships and Activities of**

The below diagram depicts the relationship between \_\_\_\_\_, the parent organization ( \_\_\_\_\_ ), and \_\_\_\_\_ ( \_\_\_\_\_ ).

, on top of the diagram, is the parent organization which collects membership dues from members. owned and maintained a club house at which was rented to members of the . collected rent payments from members, paid house maintenance fees, and made lease payments to for the land. This relationship between , and when on up until when expelled the members of the from the club house due to other unrelated activities and prohibited the members and the from "recolonizing" the house again. Ever since the club house has been empty and both the and have been in legal disputes.

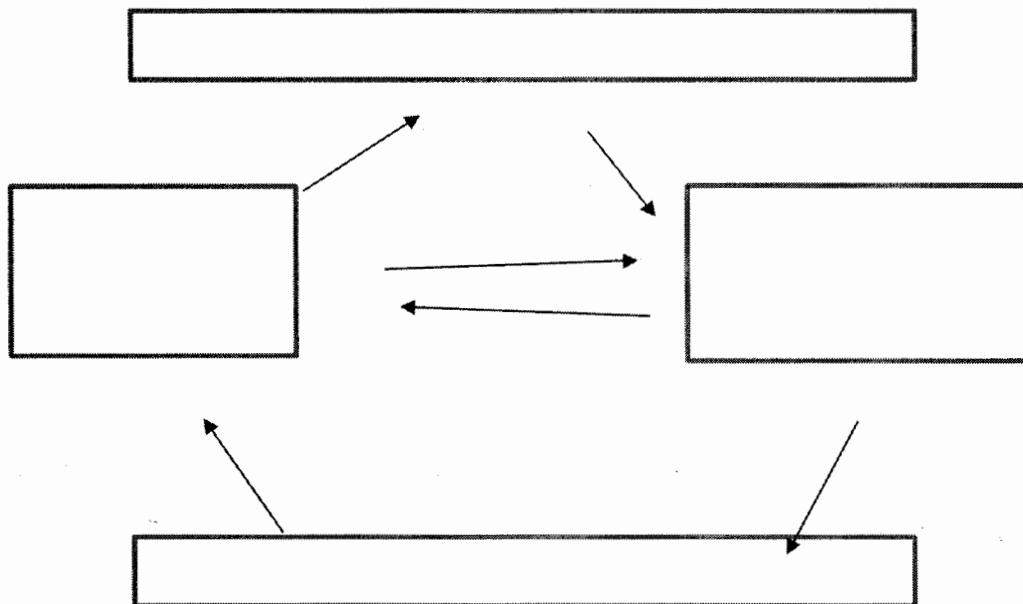
owns the land the house resides on and has a -years lease contract with which expires on . Prior to received endowment funds from and in-return grants were awarded to members by the . The diagram below shows the ambiguous relationship and the flow of money

Name of taxpayer

Tax Identification Number (last 4 digits)

Year/Period ended

among the parties involved. The arrows point to a relationship between the connected parties either by receiving or providing services and/or payments in the form of rents, fees, awards, donations, membership fees, and/or grants.

**Activities:**

is currently inactive and the club house seats empty in a lot owned by . has prohibited the from recolonizing the house until their legal issues are resolved.

has not conducted any activities since , when the club members were expelled from the . currently maintains the up-keeping of the and pays for maintenance including the lease payments to .

On a letter dated between and , parent organization, the college requested a letter be sent to members making them inactive for colonizing the again. It was agreed on when the letter was signed the parent company would send this letter as of . It is unclear if the letter was ever sent to the members and notifying them of the decision. and legal issues continue as of today.

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## Revenue Sources:

only source of revenue since is from investment income. including year ended and prior year

The organization reported the following sources and amounts of revenue on Form 990 for the periods ended [REDACTED] and prior year [REDACTED]. The Subsequent return for [REDACTED] has not been filed as of the date of this report.

**for period**

<b>CONTRIBUTIONS, GIFTS GRANTS &amp; OTHER SIMILAR AMOUNTS</b>	
1a	Federated Campaigns
1b	Membership dues
1c	Fundraising events
1d	Related organization
1e	Government grants (contributions)
1f	All other contributions, gifts, grants & similar amounts not included above
1g	Noncash contributions included in lines 1a - 1f
1h	Total (Add lines 1a - 1f)
<b>INVESTMENT INCOME</b>	
3	Investment Income (including dividends, interest & other similar amount)
4	Income from investment of tax-exempt bond proceeds
5	Royalties
6	Total Lines 3 - 6

**for period**

<b>CONTRIBUTIONS, GIFTS GRANTS &amp; OTHER SIMILAR AMOUNTS</b>	
<b>1a</b>	Federated Campaigns
<b>1b</b>	Membership dues
<b>1c</b>	Fundraising events
<b>1d</b>	Related organization
<b>1e</b>	Government grants (contributions)
<b>1f</b>	All other contributions, gifts, grants & similar amounts not included above
<b>1g</b>	Noncash contributions included in lines 1a - 1f
<b>1h</b>	Total (Add lines 1a - 1f)

<b>Form 886-A</b>	<b>Department of the Treasury – Internal Revenue Service</b> <b>Explanations of Items</b>	Schedule number or exhibit
Name of taxpayer	Tax Identification Number ( <i>last 4 digits</i> )	Year/Period ended

<b>INVESTMENT INCOME</b>	
3	Investment Income (including dividends, interest & other similar amount)
4	Income from investment of tax-exempt bond proceeds
5	Royalties
6	Total Lines 3 - 6

As shown on Lines 3, of both returns filed, total Investment Income was reported at \$ and \$ respectively. There was no other source of income reported.

## **LAW**

IRC § 501(c)(7) exempts from federal income tax "clubs" organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and not part of the net earnings of which inures to the benefit of any private shareholder.

IRC 501(c)(7) further establishes that the ordinary meaning of the term "club" implies that there must be club members, and that there must be a "commingling" of the members for social, recreational, or similar purposes. The commingling requirement has been stated in Rev. Rul. 58-589, 1958-2 C.B. 266, Rev. Rul. 70-32, 1970-1 C.B. 132, and Rev. Rul. 74-30, 1974-1 C.B. 137. Commingling is present if such things as meetings, gatherings and regular meeting FACILITIES ARE EVIDENT.

Rev. Rul. 58-589, 1958-2 C.B. 266, discusses the criteria for exemption under IRC 501(c)(7) and holds that a club must have an established membership of individuals, commingling, and fellowship to be a social club within the meaning of the statute. While this does not mean that a club cannot have artificial entities, such as corporations, as members, a federation composed completely of artificial entities (clubs) was held to be not exempt under IRC 501(c)(7) in Rev. Rul. 67428, 1967-2 C.B. 204. The rationale of that case was that a federation of clubs was a collection of artificial entities not capable of the kind of commingling required of the membership of exempt clubs. Thus, corporate memberships will not automatically disqualify a club as long as there are sufficient individual members to provide the requisite amount of fellowship and commingling. (See Rev. Rul. 74168, 1974-1 C.B. 139).

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).

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Clubs must be organized for pleasure, recreation and other non-profitable purposes. The Service has held that these other nonprofitable purposes must be similar to providing pleasure and recreation. Sponsoring activities of a noncommercial nature can lead to denial or revocation if the activities are not similar to providing pleasure and recreation. In Rev. Rul. 63-190, 1963-2 C.B. 212, an organization was held not to qualify for exemption under IRC 501(c)(7) where it provided its members with sick and death benefits.

Social and recreational clubs were originally granted exemption in the Revenue Act of 1916. Congress stated that the reason for their exemption was that the experience of the Treasury Department had been that securing returns from clubs had been a source of expense and annoyance and had resulted in the collection of little or no tax. By contrast, the justifications offered by Congress for the majority of other exempt classifications are that they provide some sort of community service or public benefit.

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other nonprofitable purposes. Public Law 94-568 amended the "exclusive" provision to read "substantially" in order to allow an IRC § 501(c)(7) organization to receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) further states;

- (a) Within the 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from non-members, so long as the latter do not represent more than 15 percent of total receipts.
- (b) Thus, a social club may receive investment income up to the full 35 percent of its gross receipts if no income is derived from non-members' use of club facilities.
- (c) In addition, the Committee Report states that where a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facilities, that income is not to be included in the 35 percent formula.

Revenue Ruling 66-149 holds a social club as not exempt as an organization described in IRC § 501(c)(7) where it derives a substantial part of its income from non-member sources.

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.

Revenue Procedure 71-17 sets forth the guidelines for determining the effect of gross receipts derived from the general public's use of a social club's facilities on exemption under IRC §

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501(c)(7). Where nonmember income from the usage exceeds the standard as outlined in this Revenue procedure, the conclusion reached is that there is a non-exempt purpose and operating in this manner jeopardizes the organization's exempt status.

### **TAXPAYER'S POSITION**

Taxpayer's Position has not been provided.

### **GOVERNMENT'S POSITION**

Based on the examination results and the facts listed under the heading of this report, does not qualify for exemption as a social club described in IRC §501(c)(7) and Treas. Reg. §1.501(c)(7) which provides that in general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments.

The examination results and the information returns filed by \_\_\_\_\_ for fiscal year ended \_\_\_\_\_ and \_\_\_\_\_ show that \_\_\_\_\_ % of the revenues came from investment income, trading securities (See \_\_\_\_\_ Attached). Therefore, it precludes the \_\_\_\_\_ from tax exemption under IRC §1.501(c)(7). In addition, the following revenue rulings supports this conclusion.

Rev. Rulings. 66-149 holds "a social club as not exempt as an organization described in IRC § 501(c)(7) where it derives a substantial part of its income from non-member sources".

The organization has exceeded the \_\_\_\_\_ % non-member threshold as outlined in Public Law 94-568, on a recurring basis during tax years ended \_\_\_\_\_ and \_\_\_\_\_.

#### **Sources of Income:**

Per our revenue reconciliation from Form \_\_\_\_\_ return and your books and records including: General Ledger, Balance Sheet, checking account, \_\_\_\_\_, we found investment income as the only source of income reported (See Exhibit-A). The investment income was recorded on the following \_\_\_\_\_ accounts: \_\_\_\_\_ Account number ( \_\_\_\_\_ ) and \_\_\_\_\_ Account number ( \_\_\_\_\_ ).

Based on Form \_\_\_\_\_ and analysis of gross receipts, it was noted that the organization total income received was from investments (trading securities) for both fiscal years ended \_\_\_\_\_ and \_\_\_\_\_ respectively. There was no other source of income reported on return and on the books and records reviewed for \_\_\_\_\_.

#### **Conduct of an Unrelated Business**

<b>Form 886-A</b>	<b>Department of the Treasury – Internal Revenue Service</b> <b>Explanations of Items</b>	<b>Schedule number or exhibit</b>
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The percentage guidelines and facts and circumstances tests apply only to nonmember use of club facilities. P.L. 94-568 does not allow a social club to include income from sources other than nonmember use of club facilities and investment income within the percentage guidelines and was not intended to allow a club to engage in activities previously forbidden. While the law was intended to increase the allowance of nonmember income from club facilities, it was not meant to eliminate the prohibition against engaging in nontraditional business. The Committee reports state:

It is not intended that these organizations should be permitted to receive, within the 15 or 35 percent allowances, income from the active conduct of businesses not traditionally carried on by these organizations.

The conduct of a business "not traditionally carried on" by social clubs should preclude exemption. An example of a business not traditionally carried on would be the sale of sporting goods to the general public from a location not physically attached to the club. This has all the characteristics of a business: solicitation of the general public, a recurring activity, and the conduct of an activity unrelated to the exempt function of a social club. Current thinking within the Service, although not yet finalized, is that the phrase "not traditionally carried on" means, in this context, not normally and usually engaged in by social clubs generally (as opposed to the particular club in question).

However, where an activity is recurring, or the club obtained property with the motive of generating a profit instead of furthering its exempt purposes, then it appears that the resulting income would not be the type of income Congress intended to exclude and would jeopardize the club's exempt status.

#### **Membership:**

In addition, \_\_\_\_\_ is not organized as a membership organization. Articles IV of its Articles Incorporation states the following: "The corporation shall have no members or membership". This in itself would preclude \_\_\_\_\_ from tax exemption under IRC §1.501(c)(7) and as noted under Rev. Rul. 58-589, 1958-2 C.B. 266, discusses the criteria for exemption under IRC 501(c)(7) and holds that a club must have an established membership of individuals, commingling, and fellowship to be a social club within the meaning of the statute. While this does not mean that a club cannot have artificial entities, such as corporations, as members, a federation composed completely of artificial entities (clubs) was held to be not exempt under IRC 501(c)(7) in Rev. Rul. 67428, 1967-2 C.B. 204.

#### **Activities:**

\_\_\_\_\_ is currently not operating under the meaning of IRC § 501(c)(7). There are no activities currently being conducted at the club house it's supposed to maintain for recreational and other

Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
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related activities. The legal disputes with since left it in a limbo with not related activities to present. Trading securities as an Unrelated Business Activity precludes it from exemption under IRC 501 (c)(7). In addition, during the interview, (treasurer) was asked about when he thought they will be operational for the exempt purposes reported on its organizing documents, but the answer was he had no idea at this time.

The did not conduct any related exempt activities during the prior and subsequent year.

### **CONCLUSION**

no longer qualifies for exemption under § 501(c)(7) of the Code since your nonmember income has exceeded the 15% nonmember threshold on a continuing basis. The has been inactive since & currently has no active members. Therefore, it is proposed that your exempt status under § 501(c)(7) of the Code be revoked effective

Should this revocation be upheld, Form must be filed starting with tax periods beginning . In addition, your parent organization will be notified of your revocation of exemption as of