



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

Date: February 9, 2022

Taxpayer ID number:

Form:

Tax periods ended:

Number: 202246014
Release Date: 11/18/2022

Person to contact:

Name:

ID number:

Telephone:

Fax:

UIL: 501.07-00

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear _____ :

Why we are sending you this letter

This is a final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(7), for the tax periods above. Your determination letter dated _____, is revoked.

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 nonprofitable 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 years ending _____ and _____.

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.

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

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

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. 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 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



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

Date:
February 3, 2021
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:
ID number:
Telephone:
Fax:
Hours:

Manager's contact information:

Name:
ID number:
Telephone:

Response due date:

CERTIFIED MAIL – Return Receipt Requested

Dear _____ :

Why you're receiving this letter

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 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 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,

Richard W. Elder, for

Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Form 6018, Form 886-A

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

ISSUES:

Whether _____ continues to qualify for tax exemption under Internal Revenue Code (IRC) § 501(c)(7)?

FACTS:

_____, hereinafter referred to as "_____", was incorporated under the laws of the state of _____ as a nonstock, nonprofit corporation on _____

purpose as stated in its articles of incorporation and bylaws is:

- To establish, maintain and operate a country club and golf club.
- To build, buy, erect, purchase, rent, lease, own, maintain real estate, buildings and all other things of whatsoever kind or nature, suitable, useful and desirable in connection with any or all of the objects and purposes herein set forth.
- The purpose of _____ is to encourage athletic exercises and to promote tourism, community growth and development, social intercourse, and to encourage, promote, establish, and manage a _____ Golf Program. Hereby to be known as the "_____." This program will be an introduction of the game of golf to the _____ of _____.
- _____ shall operate on resources generated solely from the business or otherwise donated or contributed to _____ The Board of Directors, members, or employees of _____ shall have no authority to borrow money or otherwise cause _____ to become indebted other than in the regular course of conducting _____ business.

An examination was conducted of the organization for the tax years ended _____ and _____. The audit included an interview, and a review of financial records, minutes, contracts, newsletters and the organization website.

The affairs of _____ is governed by the Board of Directors, which consists of unpaid _____ (), _____, elected by membership from its own numbers. _____ () officers are elected by the Board of Directors (President, Vice President, Treasurer, Course Manager and Secretary).

The affairs of the corporation are managed by or under the direction of the Board

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

of Directors. The Board of Directors controls and manages all affairs, property and expenditures of _____ and exercise all of the powers of _____ except such as are expressly prohibited or reserved by the By-Laws. They present an annual budget at the annual meeting for the coming year for approval or rejection by the members. No expenditure above the budget can be made without the approval of the regular members, except as stated in Article VIII of the By-Laws. The Board appoints all committees necessary for conducting the affairs of _____. The Board of Directors are empowered to employ individuals necessary for the proper operation of the golf course including a golf professional or other individuals to oversee daily play and tournaments and a course superintendent and staff. The Board of Directors recommends the rates and condition of miscellaneous income such as green fees, equipment and shed rentals, and the Board of Directors appoints all committees necessary for conducting the affairs of _____.

_____ has _____ classes of members: Single, Family, Senior (-), Senior Family, Young Adult (thru), _____, Corporate, and Student. The membership requirements and benefits are set forth in bylaws.

Membership is open to any person or business sharing the aims of _____. Each regular member shall be entitled to one vote in each matter submitted to vote at a meeting of members, but only one vote shall be permitted to be cast for each regular family membership. Membership fees are decided by the Board of Directors, and annual dues, cart, private cart privilege fees and assessments are proposed by the Board of Directors to the regular membership for approval or rejection.

Family membership is limited to husband, wife, and other dependents under _____ years of age, still living at home, and with the approval of the Board, may also include dependent college student who are pursuing a college education full time through the date of graduation.

Student membership has _____ () classes: Student members between the ages of _____ to _____ without voting rights and junior members between the ages of _____ to _____ without voting rights, enrolled in the _____ Golf Program.

The annual meeting of the membership is held each year on such date during the month of _____ as designated by the Board of Directors in the City of _____ for the purpose of electing the Directors and for the transaction of such other business as may come before. The order of business includes reading of minutes, reports and recommendations of officers and directors.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

By the year ended _____, _____ members were registered. Dues vary depending on the membership level. For example, an individual pays \$ _____ whereas a corporate pays \$ _____ +.

Taxpayer files Forms _____ & _____ annually. On Form _____, Taxpayer reports unrelated business taxable income ("UBI").

_____ is open for both members and non-members for events, which include _____, etc. _____ did separate income between members and non-members and reported non-member income through Form _____. There are some accounts, not reported in the _____, that require further clarification on the membership status of the participants, such as Advertisement Signs, Tournaments, Banquets, Wednesday Night Scramble, Range Sales, and Rental Houses, but _____ has elected not to respond (Information Document Request #6 on Non-member Income)

_____ is open to the public the following days:

Mondays	Year Round
Tuesdays through Sundays	Year Round

During these times, non-members may participate in several of _____ activities including, but not limited to, different kinds of golf tournaments (e.g. _____) and the range. Non-members may enter the grounds of _____ through an entry gate. In order to participate in these activities, they have only to identify themselves to the employee working the counter in the clubhouse and fill out the sign-in sheet. The counter person then charges them the non-member fee for participating in these activities.

Minutes of meetings and its website indicate that _____ engagement in business, making its social and recreational facilities available to the general public: course rentals, food and drink sales, advertisements, and residential house rental (_____)

_____ reported the following sources and amounts of revenue on Form _____ and for the periods ending _____ :

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Form Receipts			%	UBI
Program Service Revenue			%	
<i>Member Green & Cart Fees</i>			%	
<i>Membership Dues & Assessments</i>			%	
<i>Dues</i>			%	
<i>Shed Rent</i>			%	
<i>Advertisement Signs</i>			%	
<i>Tournaments</i>			%	
<i>Course Improvement Fund</i>			%	
<i>UCCC Banquet</i>			%	
<i>Wednesday Night Scramble</i>			%	
<i>Range Sales</i>			%	
<i>Rental House - Soccer Fields</i>			%	
<i>Refunds</i>	()		%	
Other Revenue			%	
Interest Income			%	
Insurance Claim Proceeds			%	
Gross Sales of Inventory, Less Return and Allowan			%	
Food and Drink Sales			%	
Beer Sales			%	
Misc Income			%	
Miscellaneous Revenue			%	
Non-member Green & Cart Fee			%	
Total			%	

Form Receipts			%
Gross Receipts or Sales			%
<i>Food and Drink Sales</i>			%
<i>Beer Sales</i>			%
<i>Misc. Income</i>			%
Other Income : Non-member Green & Cart Fees			%
Total			%

generated and reported the following non-member incomes:

1. Restaurant and Bar Operation: \$
2. Non-member Green and Cart Fee: \$

In addition, sold to the public the advertisement spots underneath the signs in each tee box for description of the hole (). In , recorded the Advertisement Income of

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

3. Advertising Signs: \$

During the initial interview in _____, _____ stated that "anybody from the public can join the tournament without member's invitation." _____ decided not to respond to a request for information on non-member participation to the tournaments (_____). In _____, _____ recorded the Tournament Income of _____.

4. Tournament Income: \$

During the initial interview in _____, _____ stated that "...in _____, a single man rented the entire place and used it [a residence in the Soccer Field] as a place to live." _____ provided a rental contract of the house, signed by a non-member, _____ (_____). In _____, _____ recorded the Rent Income of _____.

5. Rent Income: \$

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.

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).

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other non-profitable 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.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

(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 § 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:

is open to the public the following days:

	through	Year Round	
		Year Round	
During these times, tax year ended		received non-member income totaling \$	for the
		as reported on Form	

The central purpose of social clubs is to provide benefits to members, including access to social and recreational facilities such as club houses, golf courses, and swimming pools. When such benefits are funded by members, exemption has been justified by Congress on the theory that the members will be in the same position as if they had paid for the benefits directly. The practical effect of the exemption is to

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

allow individuals to join together to provide themselves with recreational or social opportunities on a mutual basis without further tax consequences. The individual member is in substantially the same position as if he or she had spent his or her after-tax income on pleasure or recreation without the intervening organization.

Consequently, the exemption for social clubs operates properly only if the club's income is derived exclusively from members. As described in Internal Revenue Code §512(a)(3)(B), income derived by clubs from outside of their membership (e.g., non-member green and cart fee income), operated to subsidize the recreational facilities or activities for the members, is required to be reported and taxed through Form

Furthermore, where a makes its facilities available to the general public to a substantial degree, is not operated exclusively for the pleasure and recreation of its members. The income is coming from the public or non-members to be used in defraying membership costs. In general, social clubs can receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership. Within the 35 percent, not more than 15 percent should be derived from the use of the club's facilities or services by non-members.

The reported Unrelated Business Income (\$ - % of the gross receipts \$) alone exceeds the 15% threshold and would lead to revocation of its exemption status. In addition, received the following non-member incomes which were not included in its return: Incomes from Advertising Signs, Tournament, and House Rental.

We identified that is generating income from selling advertising space in the golf course open to members and nonmembers, which is nontraditional business activities (non-exempt function income). Advertising income derived from members or non-members is unrelated business income under IRC 512(a)(3)(A) because it is not exempt function income. The sale of advertising is a nontraditional business activity because it does not further the pleasure and recreational needs of members or facilitate the use of for recreational or social activity.

Through Information Document Requests, we solicited non-member portion of the tournament income along; however, decided not to respond to the request (). Therefore, we considered all of the tournament income as Unrelated Business Income.

We identified a rental of the house to a non-member, . The rental of rooms to non-members primarily serves to provide housing and does not further

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

recreational purposes. A social club that receives substantial rental income and uses that income to defray operating expenses and to improve and expand its facilities isn't exempt under IRC 501(c)(7).

Based on conducting a _____ analysis of gross receipts, _____ received _____ % and _____ % from non-members, during tax years ending _____ and _____, respectively. The percentages would be further increased to _____ % and _____ % if non-reported Unrelated Business Incomes, such as Advertisement Sign Sales and House Rental, are included in the calculation:

			_____ %			_____ %
Related Business Income			_____ %			_____ %
Unrelated Business Income (NOT Reported)		_____ %			_____ %
Unrelated Business Income (Reported)		_____ %			_____ %
Gross Income			_____ %			_____ %

If revocation is not upheld, _____ is responsible for making adjustments to Form _____ for periods ending _____ and _____, adding the unreported Unrelated Business Incomes.

CONCLUSION:

_____ no longer qualifies for exemption under IRC § 501(c)(7) because its Unrelated Business Income has exceeded the 15% or 35% threshold on a continuing basis. Therefore, it is proposed that Taxpayer's exempt status under IRC § 501(c)(7) of the Code be revoked for tax years _____ and _____.

If revocation is not upheld, as a result of our examination, we have determined that _____ is liable for making adjustments to add the identified unreported Unrelated Business Incomes to Form _____.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Figure 1 Minutes: searching renter (residential area) and hole sponsors (advertisement)

Figure 2 Minutes: rented the house. Board contacting local businesses (public) for advertisement

Figure 3 Minutes : Sellina. servina. and providina alcoholic beveraaes (self-served)

Figure 4 Minutes: Training volunteers to protect the course while serving alcohol during tournaments. Radio advertisement discussion.

Figure 5 Minutes: Rental payment management (Collection:)

Figure 6 Minutes: Discuss invitation to annual banquet as fundraiser

Figure 7 Minutes: Discussion on preparing champion signs to public (for recruitment)

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Figure 8

Hosting golf tournaments open to public.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Figure 9 Raffle winners at the banquet: only are on the membership list ()

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Figure 10 Tournament schedule includes non-member tournaments such as

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Figure 11 and are not on the membership list (winners)

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Advertising Signs Sales

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Tournament Income & Response to Information Document Request #6

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

Rental Income