



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

Date:  
9/16/2025  
Employer ID number:

Form you must file:

Tax years:

Release Number: 202550031  
Release Date: 12/12/2025  
UIL Code: 501.07-00, 501.07-05

Person to contact:  
Name:  
ID number:  
Telephone:

Dear \_\_\_\_\_ :

This letter is our 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). 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 the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit [www.irs.gov](http://www.irs.gov).

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

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures:  
Letter 437  
Redacted Letter 4034  
Redacted Letter 4038



**Department of the Treasury  
Internal Revenue Service**

**Date:**

7/31/2025

**Employer ID number:**

**Person to contact:**

Name:

ID number:

Telephone:

Fax:

**Legend:**

B = Date

C = State

F = Group

G = Group

H = Number

J = Range

x dollars = Dollars

y dollars = Dollars

**UIL:**

501.07-00

501.07-05

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

**Facts**

You incorporated on B in the state of C as a nonprofit corporation. You are a membership organization, and your membership is open to the public. Your membership is available to those who have met the qualifications of being a member and approved by the current membership. You have H active members. You have two types of memberships, associate membership at the cost of a x dollars one-time fee, and honorary membership.

You organize and support programs for recreational enjoyment of dancing for all ages. You promote and support dancing program in elementary schools, high schools, colleges, dance schools, fraternities, sororities, fitness facilities, reunions, and churches, etc. You develop marketing programs to attract beginners. You promote the healthful aspects of dancing, including the mental, physical and social benefits. You also promote a positive image of F and their relationship with G. Last year, you conducted monthly dancing activities at a leased facility. You charge y dollars entry fees for nonmembers to attend your events. Your records showed you

had approximately J nonmembers attending your monthly dancing events. All of your revenue last year was received from nonmembers.

### **Law**

IRC Section 501(c)(7) exempts from federal income tax, clubs organized for pleasure, recreation, and other nonprofitable 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.

Treasury Regulation Section 1.501(c)(7)-1(a) states that the exemption provided by IRC Section 501(a) for an organization described in Section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes. In general, this exemption extends to social and recreational 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 nonprofit purposes.

Revenue Ruling 58-589, 1958-2 C.B. 266, sets forth the criteria for exemption under IRC Section 501(c)(7) and provides that a club may lose its exemption if it makes its facilities available to the general public. A club will not be denied exemption merely because it receives income from the general public provided such participation is incidental to and in furtherance of its general club purposes. To retain exemption a club must not enter outside activities with the purpose of deriving profit. If such income producing activities are other than incidental, trivial or nonrecurrent, it will be considered that they are designed to produce income and will defeat exemption.

Rev. Rul. 69-220, 1969-1 C.B. 154, held a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses is not exempt under IRC Section 501(c)(7). The club will not be exempt under Section 501(c)(7) if it regularly engages in a business ordinarily carried on for profit. Your activities are conducted with the purpose to generate income, decreasing the amounts needed to be contributed by your members. This income is supporting your activities, which decreases the financial obligations of your members, and therefore this income is inuring to their benefit.

Public Law 94-568, 1976-2 C.B. 596, changed the language of IRC Section 501(c)(7) from “operated exclusively for” to “substantially all” allowing IRC Section 501(c)(7) organizations to receive some outside income without losing their exempt status. Explaining the new law, Senate Report 94-1318 noted that it is intended that these organizations be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their tax-exempt status. It is also intended that within this 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.

### **Application of law**

IRC Section 501(c)(7) and Treas. Reg. Section 1.501(c)(7)-1(a) provide for exemption of clubs organized and operated for pleasure, recreation, and other non-profitable purposes. There must be an established membership of individuals whose common objective is directed towards such purposes. The commingling of members actively working towards that objective must also play a substantial part in the existence of the club. You fail to meet these requirements as described below.

Per Treas. Reg. Section 1.501(c)(7)-1(b), when a club engages in business it is not organized and operated exclusively for pleasure, recreation, and other nonprofit purposes. As described in Rev. Rul. 58-589, although a club may receive some income from the general public, your nonmembers activities are more than incidental and, therefore, preclude exemption under IRC Section 501(c)(7).

Rev. Rul. 69-220 held a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses is not exempt under IRC Section 501(c)(7). Your dancing activities are conducted with the purpose to generate income, decreasing the amounts needed to be contributed by your members. This income is in part supporting your activities, which decreases the financial obligations of your members, and therefore this income is inuring to their benefit.

A substantial portion of your income is generated from business done with the general public. By receiving all of your revenue from nonmembers, you fail the membership income tests discussed in Senate Report 94-1318. You do not meet the facts and circumstances exception for this income test as your dancing activities are regular and substantial.

### **Conclusion**

Based on the information you have provided you do not qualify for exemption under IRC Section 501(c)(7). You receive all of your income from sources outside your membership which is substantially more than the 35% limitation discussed in Senate Report 94-1318.

### **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 Determination 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  
PO 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](http://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](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements