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Dear Sir/Madam:

Your application for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code has been given consideration.

The evidence submitted shows that you are an unincorporated association formed for the purpose of sponsoring backgammon tournaments. Your club consists of [redacted] officers who are also your board of directors and who are the only persons who may vote. Your by-laws indicate that any individual who is interested in backgammon may become a member of your association at any time, merely by paying entry fees at any tournament. Further, you state that these entry fees may be considered as dues. You advertise for public patronage and make available tournament entry forms that hint of prizes and recognitions that are available.

Section 501(c)(7) of the Code provides exemption for "Clubs organized for pleasure, recreation, and other non-profitable 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."

Section 1.501(c)(7)-1(a) of the Income Tax Regulations extends exemption under Code section 501(c)(7) to clubs which are supported solely by membership fees, dues, and assessments.

Section 1.501(c)(7)-1(b) of the Regulations points out that a club which engages in business, such as making recreational facilities available to the general public, is not organized and operated for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a). It also states that solicitation by advertisement or otherwise is prima facis evidence that a club is engaging in business.

CODE	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER
		[redacted]	[redacted]				
SUR-NAME							
DATE		10-21	11/18				

DEPARTMENT OF THE TREASURY—INTERNAL REVENUE SERVICE

CORRESPONDENCE APPROVAL AND CLEARANCE

FORM 1037-A (REV. 8-74)

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Although there is no statutory definition of "club" as used in section 501 (c)(7), it implies personal contact, commingling and fellowship among members, Reference Revenue Ruling 69-635, 1969-2 C.B. 127. The determination whether a particular organization is a "club" in the sense of the statute depends on criteria other than the relationship of members to each other. The organization and operation of a club in a manner which constitutes a subterfuge for doing business with the public is inconsistent with the term "club" as used in section 501(c)(7) and disqualifies it from exemption.

Organizations whose membership requirements are broad or vague, or whose initiation charges are for one time or transient use, and whose tournament entry fees are disguised as dues, do not meet the criteria of "club". Where the management is strenuously engaged in expanding membership, and where the management can effectively perpetuate itself through close ties to the organization, it shows that a business is contemplated and that the organization was created as a sham to circumvent law.

It is not necessary for an organization to make a profit to be a business, nor is it necessary for income to be distributed to individuals to result in inurement. The people who attend your tournaments are actually members of the general public and the activities carried on are not those of a social club under the law. Indirect benefits to your four officers constitute inurement of income since undistributed income earnings provide them with facilities or services not otherwise available. Additionally, you advertise for public patronage in direct contradiction to the stated regulations.

Revenue Ruling 65-63, 1965-1 C.B., 240 held that where a club permitted the general public to attend sports club events for a fee on a recurring basis and solicited by advertisements, it was engaged in a business. It was concluded that the club was not operating as a social club under the law.

Accordingly, we hold that you are not exempt from Federal income tax under section 501(c)(7) of the Code.

[REDACTED]

Based on the information submitted, exempt status will not be recognized under any related section of section 501(c).

In accordance with this determination you are required to file Federal income tax returns on Form 1120 for each year you have been in existence. File these returns with the appropriate service center indicated on the instructions for those returns.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]
District Director

Enclosure