

[Redacted]
[Redacted]
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[Redacted]

AUG 7 1984

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you were incorporated under the Non-profit Corporation Act on [Redacted]. Your stated purpose for your organization is to conduct the business of a recreation hall.

In March 1984, you requested recognition of exemption from Federal income tax under section 501(c)(7) of the Code on an obsolete application form. The attachments to the application indicated that your activities consisted of bingo, various types of social and recreational functions, lawn care and the operation of a laundry. We requested that you file a current application and advised you of the limitations mandated by section 501(c)(7) on nonmember income and activities that are not social or recreational in nature. Your second application indicated that you were formed to oversee and maintain all common property owned by the homeowners; i.e., recreation hall, swimming pool and grounds. You listed your activities as bingo, church, dances and laundry and estimated nonmember participation to be from 12 to 15%. You also indicated that the lawn services had been discontinued. In your response for additional information which accompanied the second application, you stated, "Our main source of income is our lot maintenance fee; however, it is not enough to keep us self-supporting, which is why we pursue our special activities." You could not tell us the amount of income you received from nonmembers.

On November 1, 1983, you were advised by the State of [Redacted] that you were exempt and did not need a license to conduct bingo. The State regulations limited your prizes to \$ [Redacted] per game, and the games had to be conducted solely for the amusement and recreation of your members.

In your April 7, 1984 letter to the Internal Revenue Service, you stated, "We formerly held an exempt license for our Bingo games and have previously filed all this information. In 1983 we thought it was not necessary to have an exempt license from some of the literature that was sent us, so we dropped it. After we dropped our exempt status, it was then learned that we could not let our renters or outside guests attend our bingo games, which is why we are respo-

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Cor		[Redacted]	[Redacted]				
Surname		[Redacted]	[Redacted]				
		8-7-84	8/14/84				

[REDACTED]

[REDACTED] is a planned adult community which contains lots on which mobile homes, park models or travel trailers may be placed. The lots may be either purchased or rented. Typically, in the [REDACTED], such facilities are used by older residents and winter visitors from the North.

You have been filing Federal income tax returns on Form 1120-B, a return which is used by home owners' associations described in section 528 of the Code. You are organized as a typical homeowners' association. Stockholders of your corporation are owners of lots in [REDACTED]. Your bylaws indicate that you have established committees that were designed to improve your facilities and approve plans for structures to be placed in your park, to see that other regulations of covenant are followed and to act as a go-between for stockholders and the [REDACTED] Zoning Commission.

In [REDACTED] and [REDACTED] your total support and revenue (less cost of sales) were \$[REDACTED] and \$[REDACTED], respectively. Lot assessments for maintenance during [REDACTED] and [REDACTED] were \$[REDACTED] and \$[REDACTED], respectively, and laundry fees for these periods were \$[REDACTED] and \$[REDACTED].

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(7) 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 of the regulations provides, in part, as follows:

"(b) 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 non-profitable purposes, and is not exempt under section 501(c)(7). 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. However, an incidental sale of property will not deprive a club of its exemption."

Revenue Ruling 75-494, 1975-2 Cumulative Bulletin 214, provides that a club providing social and recreational facilities, whose membership is limited to homeowners of a housing development, will be precluded from qualifying for exemption under section 501(c)(7) of the Code by owning and providing residential fire and police protection and trash collection services.

[REDACTED]

Based on the information you submitted, it is held that you do not qualify for exemption from Federal income tax under section 501(c)(27) of the Code because you have not established that substantially all of your activities are social and recreational in nature and you are conducting activities which are not normally performed by social clubs.

"Substantially all" has been defined to mean that 85% or more of an exempt social club's income is from members. As we understand your bingo operations, you have given up your exempt bingo license so that you could, in fact, open your games to the nonmembers. This is PBTNA PACIF evidence that you intend to do business with the general public and we assume that your income from nonmembers will exceed the permissible limits.

Operating a laundry and laund services are activities that are not normally conducted by a social club. While these activities are not identical to those enumerated in Revenue Ruling 75-404, the rationale of the revenue ruling applies to such activities. There were indications in your application that the laund service would be both continued and discontinued, but in either event, the laundry service is, in itself, sufficient to preclude exemption.

You should continue to file an annual Federal income tax return on Form 1120 or 1120-II.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

Sincerely,

[REDACTED]
District Director

In duplicate
By _____
Date _____