

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

JUL 14 1987

Dear Sir or Madam:

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 discloses that you were incorporated [REDACTED], under the [REDACTED] Non-Profit Corporation Act.

Your purposes are to establish and maintain a private club in [REDACTED], [REDACTED], for the use and benefit of the members of the corporation, and to promote the benevolent, recreational, athletic, social and cultural purposes of the members, their families and guests, to furnish and maintain all proper amusements, entertainment, recreation, and facilities for members of the Club, and to acquire lands by leasing, renting or purchase, and acquire other properties for said purposes, and to sell or dispose of such properties; to furnish meals, professional entertainment, refreshments or accomodations to members of the Club, their families and guests.

The Articles of Incorporation state that your organization will have at least one class of members, and may have two or more classes of members, as determined by the Bylaws of the corporation.

Your Bylaws states that any individual who subscribes to the purposes of the Club may become a member of the Club. A person must submit a written application, be twenty one years of age, and pay-annual dues of \$[REDACTED].

Your funds are derived from sales of alcoholic beverages, membership dues, and miscellaneous receipts.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other nonprofitable 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 privste shareholder."

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
		[REDACTED]					
Surname		[REDACTED]					
Date		7-14-87					

Revenue Ruling 69-635, C.B. 1969-2, 126, holds that a commingling of members must play a material part in the activities of the organization before a section 501(c)(7) exemption can be granted.

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 nonprofitable purposes, and is not exempt under section 501(a). 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 67-8, 1967-1 C.B. 142, held that the term "Club" presupposes the existence of a common objective among members. In other words, passive association is not enough; members must be joined by a mutuality of active interests or shared goals justifying the existence of the organization.

On the basis of the information presented, we conclude that you are not organized and operated within the regulations pertinent to section 501(c)(7) because your social and recreational features are not a material purpose of the club, but are subordinate and incidental to the predominant purpose of engaging in the business of selling service to an unlimited number of members; that membership is merely a guise under which virtually unlimited numbers of individuals may utilize club facilities. Revenue Ruling 66-225, 1966-2 C.B. 227, discusses a club that was operated as an integral part of a taxable organization's business. In this case it was held that the club was organized to operate a cocktail lounge and cafe as an integral part of the motel and restaurant business and therefore, was not operated exclusively for pleasure, recreation, and other nonprofitable purposes.

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.

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.

[REDACTED]

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

[REDACTED]  
District Director

Enclosure:  
Publication 892  
Form 6018