

The exempt status of a country club will not be adversely affected if it makes its facilities available to an exempt organization for charitable fund-raising activities at a charge equal to or less than direct cost.

A club exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954 has asked whether its exempt status would be adversely affected if it rents its facilities under the circumstances described below.

The club was organized to operate and maintain a country club for the pleasure and recreation of its members. The club has been asked to permit an organization exempt from Federal income tax under section 501(a) of the Code to use its facilities to raise funds for charity. The sponsoring organization will sell admission tickets to the general public. Any profits will be donated by the sponsoring organization to an organization exempt under section 501(c)(3) of the Code.

The club's charges to the sponsoring organization will be set at or below cost. 'Cost' for this purpose will be direct cost only and will not include any pro rata share of overhead expenses or depreciation. These charges will not reimburse the club for any portion of the expenses normally incurred in running the club for its members.

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1 of the Income Tax Regulations provides that, in general, exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club which engages in business, such as making its social and recreational facilities available to the general public, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a).

Making its social and recreational facilities available to the sponsoring exempt organization for the purpose of raising funds for charity does not evidence a business activity within the meaning of the regulations because no possibility of profit exists since the charges will be set at a rate equal to or less than direct cost. Moreover, this activity will not result in inurement to the club or its members.

Accordingly, it is held that the use of the club facilities under the foregoing circumstances will not adversely affect the

club's exemption from Federal income tax under section 501(c)(7)  
of the Code.