

Internal Revenue Service
District Director

Department of the Treasury
230 South Dearborn Street
Chicago, Illinois 60604

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Employer Identification Number:
[REDACTED]

Person to Contact:
[REDACTED]

Telephone Number:
[REDACTED]

Refer Reply to:
Internal Revenue Service

Attn: [REDACTED]
1100 Commerce Street
Dallas, TX 75242

Date: AUG 12 1989

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 discloses that you were incorporated on [REDACTED] under the nonprofit laws of the [REDACTED].

You were formed for the purpose of securing discount travel-related benefits for your members with respect to airfares, travel insurance, automobile rental, and restaurants.

Your activities consist of working on behalf of your members with travel tour operators, trip consolidators, and wholesalers to obtain the lowest airfares for association members for their timeshare weeks on the island of [REDACTED], maintaining all member information in computer databases, pooling members with other members to obtain group rates for air travel, and canvassing various businesses in [REDACTED] such as restaurants, and water sport activities to obtain discounts for your members.

Membership is made available to any persons, partnership, limited liability company or corporation that own a timeshare unit with respect to property located on the island of [REDACTED]. Members are not entitled to vote for the election of Trustees or any other matter. Your Board of directors may elect to change the membership requirements to include condominium owners, homeowners, and others from time to time in order to increase membership.

Your financial support will be received primarily from membership dues. However, minimal future support is anticipated from commissions received from discounted airfare secured from airlines, wholesalers or consolidators.

Internal Revenue Code Section 501(c)(7), provides for the exemption of "clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the of which activities are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Although there is no statutory definition of "club" as used in IRC 501(c)(7), it implies the existence of frequent personal contact, commingling, and fellowship among members; *passive association is not enough*. Generally, the lack of commingling of members is an indication that the basic purpose of the organization is only to provide personal services or goods to the membership.

Revenue Ruling 55-716, 1955-2 C.B. 263 provides that the absence of fellowship as a material factor in the life of an organization resulted in nonrecognition of exemption to an association formed for the purpose of furnishing television antenna service to its members. Organizations of this type generally do not afford opportunities for personal contact among members, or if there is such contact, it is incidental to the primary purpose of the organization.

Revenue Ruling 70-32, 1970-1 C.B. 132 provides that a flying club providing economical flying facilities for its members, but having no organized social and recreational program, did not qualify for exemption because the sole activity of the club was rendering services to its individual members and there was no significant commingling of its members.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that Section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs that are supported solely by membership fees, dues and assessments.

You are like the organization in Revenue Ruling 70-32 because your members have no social and recreational program and the sole activity of your club is to work with travel tour operators, trip consolidators, and wholesalers to obtain the lowest airfares for association members for their timeshare weeks on the island of [REDACTED]

Like the organization in Revenue Ruling 55-716, your organization does not afford opportunities for frequent personal contact, commingling and fellowship among members. Although there is an indication of passive association it is not sufficient to imply frequent personal contact, commingling or fellowship.

It has been determined based on the facts and evidence on file that your organization is operated in the personal interest of its members; that social features are not a material purpose of the club but are merely incidental to the active furtherance of a predominant purpose to engage in the business of selling services for profit to an unlimited number of individuals. Therefore, it cannot be said that you are operated exclusively for pleasure, recreation and other nonprofitable purposes and that no part of your income inures to the benefit of your members.

Also, it has been determined that your organization will not qualify for exemption under other sub-sections of IRC section 501(a).

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in Section 501(c)(7) of the Code. You are required to file Federal income tax returns on Form 1120.

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.

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

Sincerely yours,



Ladd Ellis, Jr.
District Director

cc: [REDACTED]

Enclosures:

Publication 892
Form 6018

Department of the Treasury-Internal Revenue Service
Consent to Proposed Adverse Action
(All references are to the Internal Revenue Code)

Prepare in
Duplicate

| | | | |
|----------------------------------|------------|--|--|
| Case Number | [REDACTED] | Date of Latest Determination Letter | |
| Employer Identification Number | [REDACTED] | Date of Proposed Adverse Action Letter | |
| Name and Address of Organization | | | |
| [REDACTED] | | | |

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

NATURE OF ADVERSE ACTION

- Denial of exemption under Section 501(c)(7)
- Revocation of exemption, effective
- Modification of exempt status from section 501(c)() to 501(c)(), effective.
- Classification as a private foundation (section 509(a)), effective
- Classification as a non-operating foundation (section 4942(j)(3)), effective
- Classification as an organization described in section 509(a)(), effective
- Classification as an organization described in section 170(b)(1)(A)(), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

| | |
|----------------------|------|
| Name of Organization | |
| Signature and Title | Date |
| Signature and Title | Date |