

Internal Revenue Service  
Director, Exempt Organizations  
Rulings and Agreements

Department of the Treasury  
P.O. Box 2508 - EP/EO  
Cincinnati, OH 45201

Date: OCT 24 2003

[REDACTED]

Employer Identification Number:

[REDACTED]

Person to Contact - I.D. Number:

[REDACTED]

Contact Telephone Numbers:

[REDACTED]

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(7) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code. However, we have concluded that you do not qualify under another subsection.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a Trust, or Form 1120 if you are a corporation or an unincorporated association.

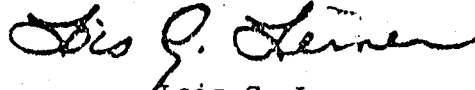
If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues." The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

[REDACTED]

If we do not hear from you within the time specified, this will become our final determination.

Sincerely,



Lois G. Lerner  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures: 3

[REDACTED]

Enclosure I

Your Form [REDACTED] of May 6, 2003 requests a determination as to exempt status under section 501(c)(7) of the Code. The application shows that you were incorporated in the [REDACTED]. The Articles of Incorporation state that your main purpose is to [REDACTED].

Your application lists [REDACTED] as directors. The three directors are also officers of the [REDACTED], a for-profit restaurant. Your club and the [REDACTED] use the same facilities and hours of operation.

There is a lease agreement between your club and the [REDACTED]. The monthly lease amount is equal to 6% of the monthly gross revenue. There is also a club management agreement with [REDACTED] based on a percentage of the alcohol sales of your club.

When someone enters the [REDACTED] and orders an alcoholic beverage, they are asked to join your club. To become a member of your club, one [REDACTED]. As of June 19, 2003 your club had [REDACTED]. There were [REDACTED] of your club, and their membership has no expiration date. The remaining members receive their membership when they order an alcoholic beverage [REDACTED] and that membership is good for 30 days. The members pay no club dues or other assessments.

Your sole employee is [REDACTED], who manages your club. The alcoholic beverages are served to the members of your club by the employees of the [REDACTED]. Your club does not solicit members. The members of your club are typically the regular customers of the [REDACTED]. There are no scheduled activities for the members of your club and there are no plans to implement any. Your club was incorporated at the request of the [REDACTED]. Since the [REDACTED] is located in a [REDACTED] only members of your club are allowed to purchase alcoholic beverages at the [REDACTED].

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of 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.

Revenue Ruling 66-225, 1966-2- CB 227 held that a nonprofit organization which provides entertainment for its members does not qualify for exemption under section 501(c)(7) of the Internal Revenue Code of 1954 where it is controlled by a taxable corporation and operated as an integral part of such corporation's business.

[REDACTED]

Revenue Ruling 65-219, 1965-2 CB 168 holds that a club which is operated under an agreement with its resident agent whereby he controls the size of the club membership, the amount of initiation fees and annual dues, retains all initiation fees and 90 percent of the dues, and transfer fees in return for the exclusive use of the swimming pool which he owns and operates is not exempt under section 501(c)(7) of the Code.

Revenue Ruling 70-32, 1970-1 CB 132 holds that a flying club providing economical flying facilities for its members but having no organized social or recreation program does not qualify for exemption under section 501(c)(7) of the Code.

The reason your club was formed is to serve alcoholic beverages. You share the same [REDACTED] the hours of operation are the same, and your club uses the employees [REDACTED] to serve alcoholic beverages. When someone enters the [REDACTED] to get something to eat and asks for a alcoholic beverage they are asked to join your club. There are no scheduled activities for members of your club.

[REDACTED] receives a set percentage of the gross alcohol sales from your club.

[REDACTED]

[REDACTED] based on the amount of alcohol that your club sells. This constitutes a benefit to the [REDACTED] and to [REDACTED]

Like the organization described in Revenue Ruling 66-225, your club was formed and incorporated by the owners [REDACTED]. Both organizations have the same [REDACTED] share the same [REDACTED] and the employees of the [REDACTED] serve the alcoholic beverages to the members. The serving of alcoholic beverages is an integral part of the overall business operations of the [REDACTED]

Your club is similar to the organization described in Revenue Ruling 70-32 in that you have no social or recreation programs for your members. The sole purpose of your club is to furnish alcoholic beverages to the [REDACTED]

Like the organization described in Revenue Ruling 65-219, a board member of the [REDACTED] His salary is based on the amount of alcoholic beverages that are sold. [REDACTED] signed the management contract [REDACTED]

[REDACTED] House and your club

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

Case Number [REDACTED]	Date of Latest Determination Letter
Employer Identification Number [REDACTED]	Date of Proposed Adverse Action Letter OCT 24 2003

Name and Address of Organization



I consent to the proposed adverse action relative to the above organization as shown below. I understand that if Section 7428, Declaratory Judgements 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
- Revocation of exemption, effective
- Modification of exemption from section 501(c)( ) to section 501(c)( ), effective
- Classification as a private foundation described in section 509(a), effective
- Classification as an private operating foundation described in sections 509(a) and 4942(j)(3), effective for
- 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 judgement under section 7428.

(Signature instructions on Back)

Name of Organization:



Signature and Title

Date

Signature and Title

Date