

Internal Revenue Service

Department of the Treasury

District
Director

INTERNAL REVENUE SERVICE
P. O. BOX 1680, GPO
BROOKLYN, N. Y. 11202

Date: FEB 2 1955

Person to Contact:

Contact Telephone Number:

Refer Reply to:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for tax exempt status under section 501(c)(7) of the Internal Revenue Code.

The evidence presented reveals that you were incorporated on [REDACTED], under section [REDACTED] of the Not-for-Profit Corporation Law of the State of [REDACTED].

The purposes for which the corporation is formed are as follows according to the creating document:

- A. To promote and encourage interest in the hobby of model railroading wherever and whenever possible.
- B. To promote greater fellowship among model railroad engineers.
- C. To promote, encourage and provide social activities among its members and members of their similar organizations.
- D. To acquire by gift, devise, purchase or lease, real or personal property to be used to carry out the purposes of property to be used to carry out the purposes of the corporation.
- E. To do any other act or thing incidental to or connected with the foregoing objects or in advancement thereof, but not for profit.

From the financial data you have submitted, it appears that your non-member and investment income constitutes more than 35% of gross receipts.

Section 501(c)(7) of the Code provides exemption to clubs organized and operated exclusively 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 private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Public law 94-568 amended IRC 501 to reflect a twofold change under IRC 501(c)(7). First, it makes it clear that a social club may receive some investment income without losing its exempt status. Second, it permits a higher level of income without losing its exempt status. Second, it permits a higher level of income from nonmember use of club facilities than was previously allowed. In addition, public law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. Thus a social club may receive investment income up to the full 35 percent amount of gross receipts. If a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

Revenue Ruling 66-149, 1966-1 C.B. 146 holds that a social club is not exempt from Federal income tax as an organization described in section 501(c)(7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments which it owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for the club.

(3)

Like the organization in Revenue Ruling 66-149 your organization regularly derives a substantial part of its income from nonmember sources, such as interest income admissions, and receipts derived from the sale of floor space to dealers and clubs.

Accordingly, we conclude that you are not operated exclusively for purposes described in section 501(c)(7) of the Internal Revenue Code. Therefore, you do not qualify for exemption from Federal income tax under section 501(c)(7).


You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1630, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completions.

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

Very truly yours,


District Director

Enclosure: Pub. 892