

Room 710 Tech Staff  
Post Office Box 1055  
Atlanta, Georgia 30370

MAR 8 1982

Dear Sir or Madam:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you were incorporated [REDACTED], under the laws of the State of [REDACTED]. Article III, paragraph (a) of your Article of Incorporation states that the corporation was organized "... to provide social and recreational facilities for its members." Paragraph (b) of the Article provides that the corporation will "... manage, operate, and lease forests, lakes, water reservoirs, wild life reservations, ...for the benefit of its members...."

Your primary activity consist of the leasing of land from [REDACTED]. The land is leased to provide hunting, fishing camping and other outdoor privileges for your members. You also hold monthly meetings and has held one fishing tournament for your members. More of such tournaments and picnics are planned in the future.

You have two classes of membership, Class A and Class B. Class A membership is composed of current and retired employees of [REDACTED]; Persons that lease land to you and their employees. Their annual membership dues are \$[REDACTED]. Class B. membership is made up of persons from the general public at large. Their annual membership dues are \$[REDACTED]. Equal voting rights are extended to both classes of membership.

Section 501(c) of the Internal Revenue Code of 1954 describes certain organizations exempt from Federal income tax under section 501(a) and read, in part, as follows:

"(7) Clubs organized for pleasure, recreation, and other non-profitable purposes substantially all of the activities of which are for such purpose, and 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, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) 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 recreational 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.

Revenue Ruling 70-48, 1970- C.B., 133 denied exemption to a social club whose active members paid substantially lower dues and initiation fees than associate members, although both classes enjoyed the same rights and privileges. It was determined that the active members were being subsidized at the expense of the associate members, which constituted inurement of income.

Based on the information submitted, the primary reason for the difference in the amount of annual dues paid by Class A and Class B members is the employment status of Class A members. Your explanation of the difference in the amount of annual dues paid by each class of members is that Class A are responsible for the caretaking of the land leased by the you; you indicate that such members are encouraged and required to donate time to this responsibility. Class B members are not required to take care of the land leased by you. There is no formal requirements by you that makes caretaking of the leased land a responsibility for Class A members; nor is there an organized schedule describing and/or assigning duties to Class A members. Your explanation for the difference in dues paid by each class of members is without merit. There is no material difference in the rights and privileges afforded to each class of your membership, and it follows that there should be no difference in the annual dues of each class. The higher dues paid by your Class B members constitutes inurement of income to your Class A members. Therefore, you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(7) of the Code.

In a telephone conversation on [REDACTED] with your representative, [REDACTED], we informed him of our proposed denial of your application for exemption. [REDACTED] gave no indication as to whether our determination would be appealed.

If you do not agree with our proposed determination, we recommend that you request a conference with a member of the Regional Director of Appeals Staff. Your request for a conference should include a written appeals signed by an authorized officer giving the facts, law, and other pertinent information to support your position as explained in the enclosed Publication 892. If you are to be represented by someone who is not one of your authorized officers, he/she will need to file a power of attorney or tax information authorization and be qualified to practice before the Internal Revenue Service as provided in Treasury Department Circular No. 230. The conference may be held at the Regional Office or, if you request, at any mutually convenient District Office.

If you do not choose to pursue this matter further, you should prepare Federal income tax returns on Form 1120 for the years indicated and file them with your key District Director for exempt organization matters. Based on review of the financial information you furnished, it appears that returns for April 30, 1981 should be filed. These returns should be filed within 60 days from the date of this letter unless a request for an extension of time is granted.

If we do not hear from you within 30 days, this letter will become our final determination.

Sincerely yours,

  
District Director

Enclosure:  
Publication 892