



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 of 1954.

The information submitted discloses that you were incorporated under the nonprofit corporation laws of the State of [REDACTED] on [REDACTED].

Your stated purposes are to promote and publicize automobile racing, to conduct and sponsor automobile races, to advance the general welfare of automobile racing, and to encourage a spirit of cooperation among members of your organization. Your organization's only activity is the conduct of open wheel modified race car events in which both members and nonmembers are permitted to compete. Aside from the annual business meeting and awards banquet your only activities during [REDACTED] were the conduct of [REDACTED] race events.

Your usual arrangement is an agreement with a particular promoter for each individual race such that at the completion of each two day race you receive [REDACTED] or [REDACTED] % of the gate receipts, whichever is greater, from the promoter if you furnish a minimum number of cars. You have similar types of arrangements for distribution of gate receipts received from the public in the case of one day shows. Races are open to admission of the public on payment of admission fees established by the particular promoter for any given race event. The promoter handles all promotion and advertising. Your projection for [REDACTED] indicates that you shall conduct seven modified race car events during that calendar year.

Over [REDACTED] % of total gross receipts during [REDACTED] was received from race promoters, and over 60% of total gross receipts was paid out to member and nonmember open car drivers as purse winnings. Two-thirds of your participating drivers were nonmembers during [REDACTED]; and you project a similar pattern for 1955. Also, you project that the pattern of

DATE	RECEIPTS	EXPENSES	NET GAIN	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER

Section 501(c)(7) of the Code exempts from Federal income tax 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. In general, exemption from Federal income tax under this section encompasses social and recreational clubs which are supported solely by membership fees, dues and assessments.

Effective for taxable years beginning after October 20, 1976, P.L. 94-500 amends the requirements for tax exemption for social clubs and similar organizations. One of the changes is that "substantially all" of such an organization's activities must be for pleasure, recreation, and other nonprofitable purposes. This change, from the previous "exclusively", permits an organization to earn income from nonmember sources to a limited extent and to have a limited amount of investment income (both types of income being subject to tax) without losing its general exemption from Federal income tax. An exempt social club is permitted to receive up to 15 percent of its gross receipts from a combination of investment income and receipts from nonmembers so long as the latter do not represent more than 15 percent of total receipts.

Revenue Ruling 56-475, 1956-2, C.B. 308 concluded that an organization formed to promote interest in stock cars is not exempt if it conducts such an part of the proceeds from public admissions is distributed to member participants. This ruling supported its finding on the basis that distributions of value to these members was either won or placed in the case events constituting inurement to members; and that this runs contrary to the description provided in section 501(c)(7) of clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes.

Revenue Ruling 56-449, C.B. 196-1, page 147 states, in part: "The statute contemplates that clubs falling within the ambit of section 501(c)(7) of the Code are designed primarily to provide for the pleasure and recreation of members. The activities may be supported by funds obtained from members, such as dues, assessment and payment for the use of club facilities. However, to the extent that income is derived from nonmember sources, it inures to the benefit of the members. If such activities are merely incidental, trivial, or nonrecurrent, it is considered that they are intended to produce income and are reflective of a purpose or motive disqualifying the organization under section 501(c)(7) of the Code."

The above revenue ruling indicates that you operate in a manner which is similar to the organization cited in Revenue Ruling 56-475. Your organization's primary activities and members and nonmembers constitute income to the members as well as other private interests. However, the determination of the extent to which receipts from nonmembers is and over the limit specified in Public Law 94-500 and is reflective of a purpose in violation with exemption under section 501(c)(7).

Accordingly, we hold that you are not entitled to recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code. You are required to file Federal income tax returns on Form 1120 for each year you have been in existence.

We are not ruling on your qualification for exemption under any related paragraph of Internal Revenue Code 501(c).

If you accept our findings, you do not need to take further action.

If you do not accept our findings, we recommend that you request a conference with the Office of Regional Director of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at our Regional office or, if you request, at any mutually convenient District office.

If we do not hear from you within 30 days from the date of this letter, this ruling will become final. If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,


District Director