

[REDACTED]

Person To Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply To: [REDACTED]

Date: 5 DEC 1986

CERTIFIED MAIL

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 indicates that you were incorporated on [REDACTED] under the non-profit laws of the [REDACTED].

Your stated purposes are to: promote and support the programs and social activities of [REDACTED]; carry out the purpose of [REDACTED] in relation to the needs, concerns, and emphasis of all of its members; provide leadership, advice and assistance to young people in the community, promote a sense of brotherhood and togetherness among young adults; provide social activities to enrich the culture of the community; and provide a wholesome athletic outlet to the members of the organization.

You state that your organization sponsors the [REDACTED], which is an adult team with an age group of from 21 to 50. You hold two dances and one raffle each year to help defray expenses that cannot be taken care of merely with dues and assessments. Your dances and raffle are open to the general public, which is made aware of your fund-raising activities by word of mouth and by circulated fliers.

Your income is from your dances, raffle, and member dues and assessments. Expenditures are for the costs of the fund-raising activities, softball uniforms, jackets, equipment, and for refreshments after the games. The net funds left will be used for the end of the season banquet, to pay the deposit for the disco facility, and to purchase trophies/plaques for the banquet. You state that you expect to receive the same type of non-member income in the future. The percentage of gross receipts you expect to receive from non-members is [REDACTED] percent.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]	[REDACTED]	[REDACTED]				
Date	12/1/86	12/2/86	12/5/86				

Section 501(c)(7) of the Internal Revenue Code exempts from Federal income tax 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.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations states that 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 non-profitable 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 which are supported solely by membership fees, dues and assessments.

Public Law 94-568, as explained in Senate Report No. 94-1318, published in Cumulative Bulletin 1976-2, page 597, provides that a club exempt from taxation and described in section 501(c)(7) is to be permitted to receive up to 35 percent of its gross receipts from a combination of investment income and receipts from non-members (from the use of its facilities or services), so long as the latter do not represent more than 15 percent of the total receipts. It is further stated that if an organization exceeds these limits, all of the facts and circumstances must be considered in determining whether the organization qualifies for exempt status.

However, the Senate Report specifically states that the amendment was not intended to permit social clubs to receive, even within the allowable guidelines, income from the active conduct of businesses not traditionally carried on by social clubs.

Revenue Ruling 68-119, published in Cumulative Bulletin 1968-1, page 268, holds that a club will not necessarily lose its exempt status if it derives income from other than bona fide members and their guests, or if the general public on occasion is permitted to participate in its affairs, provided such participation is incidental to and in furtherance of its general club purpose and the income therefrom does not inure to members. The equestrian club considered in this ruling held an annual steeplechase which was open to the general public. Prize money was paid from entry fees paid by participants and general expenses of the meet were paid from admissions and sale of programs and refreshments. The club distributed any net proceeds from the meet to charity. Therefore, it was held the meet was not operated to make a profit, and the income from non-members did not inure to the benefit of members. The club's exemption was not jeopardized by non-member participation in its annual meet.

Revenue Ruling 65-63, published in Cumulative Bulletin 1965-1, page 240, holds that a non-profit organization which, in conducting sports car events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising, does not qualify for exemption as a club organized and operated exclusively for pleasure, recreation and other non-profitable purposes under section 501(c)(7) of the Internal Revenue Code of 1954.

You regularly carry on activities for which you solicit public patronage by advertising. You state in your application that the dances and raffle are held to help defray expenses that cannot be taken care of merely with member dues and assessments.

The amount of non-member income you received for the year ending [REDACTED] was [REDACTED] percent. You expect to continue to receive the same type of non-member income in the future in the approximate amount of [REDACTED] percent. The income from non-members was used to pay for fund-raising costs, team uniforms, and team refreshments. Since member dues could not cover the expenses of the club, the non-member income has and will inure to the private benefit of the club members.

Accordingly, you do not qualify for recognition of exemption from Federal income tax under section 501(c)(7) of the Code.

Based on the information submitted, exempt status will not be recognized under any related paragraph on the Internal Revenue Code section 501(c).

Until you have established an exempt status, you are not relieved of the requirements for filing Federal income tax returns.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office 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 the Regional office or, if you request, at any mutually convenient District Office. If we do not hear from you within 30 days of the date of this letter, this

[REDACTED]
determination will become final.

Sincerely yours,

[REDACTED]
[REDACTED]
District Director

Enclosure: Publication 892
[REDACTED]