

Internal Revenue Service

Department of the Treasury

District  
Director

P.O. Box 2508  
Cincinnati, OH 45201

[Redacted]

Person to Contact:

Telephone Number:

Refer Reply to:

EP/EO

Date: SEP 4 1987

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 and we have concluded that you do not.

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 1120 because you are a corporation.

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 that 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.

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

Sincerely yours,

cc:

[Redacted]

[Redacted]

[Redacted]  
District Director

Enclosures: 3

Enclosure I

Your application discloses that you were formed on [REDACTED] [REDACTED] [REDACTED], as a nonprofit corporation under the laws of the State of [REDACTED]. Your third article states in part that its specific and primary purpose is to:

Operate and maintain family reunions and archive material in order to preserve family ties, and for the pleasure and recreation of its members.

Your application for recognition of exemption discloses that your purposes are to promote Yarnell Family ties, and to help finance a reunion once a year.

It further discloses that your present and future sources of financial support will be from a bequest received from the estate of [REDACTED] [REDACTED] and small contributions from active members of the family.

Your financial information submitted for [REDACTED] and [REDACTED] projects your yearly income to be \$ [REDACTED], received entirely in the form of interest income.

Section 501(c)(7) of the Code exempts from Federal income tax:

Clubs organized 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.

Section 1.501(c)(7)-1(a) of the Regulations provides in part:

The exemption provided by section 501(a) of the Code for an organization described in section 501(c)(7) of the Code 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 inure 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, 1976-2 C.B. 596 provides in part:

As a general guideline, in order to qualify for exemption under section 501(c)(7) of the Code, a club is permitted to receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership.

Since all of your projected income is from interest on your savings account (investment income), you will substantially exceed the 35 percent limit on non-member income permitted by Public Law 94-568. Accordingly, we propose to deny your application for recognition of exemption under section 501(c)(7) of the Code.