

Internal Revenue Service  
District Director

Department of the Treasury  
P.O. Box 2508  
Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

EP/EO

Employer Identification Number:

Date:

JUN 14 1995

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of sections 501(c)(3) and 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. Contributions to you are not deductible under section 170 of the Code.

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.

[REDACTED]

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b) (2) of the Internal Revenue code provides in part that:

A declaratory judgement or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within the time specified, this will become our final determination. In that event, appropriate State officials will be notified of this action in accordance with the provisions of section 6104(c) of the Code.

Sincerely yours,

[REDACTED]  
District Director

Enclosures: 3

[REDACTED]

Information submitted establishes that you were incorporated on [REDACTED], under the laws of the State of [REDACTED].

The Articles of Incorporation state your purposes are, in part:

- (a) To conduct exclusively charitable, non-profit activity for the promotion of purebred beagle dogs, responsible ownership, and the betterment of the dog - owning community.

The By-Laws state that there shall be one (1) class of membership in the Corporation and that all members shall be entitled to vote on all matters. The By-Laws define members as those persons 18 years of age or older owner of purebred beagle dogs.

The application discloses that your activities include promoting the training and improving the beagle breed, developing young beagle owners, encouraging sportsmanship and fair play, promoting good fellowship among its members and to respect and improve private and public property.

Subsequent correspondence submitted indicates that you are operating licensed hunts conducted in and around [REDACTED] on public or private property. The correspondence also indicates that the hunts are open to any purebred beagle owners nationally.

Financial data submitted for [REDACTED], through [REDACTED], is as follows:

Cash receipts year to date:

Membership fees	\$ [REDACTED]
Gross investment income	[REDACTED]
Gross receipts from admissions, of which 40% is nonmember income	[REDACTED]

Total Cash Received From All Sources: \$ [REDACTED]

Cash expenses year to date:

Occupancy	\$ [REDACTED]
Other:	[REDACTED]
United Kennel Club License	[REDACTED]
United Kennel Club Registration	[REDACTED]
Advertising for registered Hunts	[REDACTED]
Office Supplies	[REDACTED]
Insurance	[REDACTED]
Trophy's	[REDACTED]

Total Cash Expenses: \$ [REDACTED]

Projected budgets for [REDACTED] and [REDACTED] are as follow:

Cash receipts

Membership fees	\$ [REDACTED]	\$ [REDACTED]
Investment income	[REDACTED]	[REDACTED]
Gross receipts from related activities of which 40% is nonmember income	[REDACTED]	[REDACTED]
Total cash receipts	\$ [REDACTED]	\$ [REDACTED]

Expenses:

Occupancy	[REDACTED]	[REDACTED]
Other:		
United Kennel Club License	[REDACTED]	[REDACTED]
United Kennel Club Registration	[REDACTED]	[REDACTED]
Advertising	[REDACTED]	[REDACTED]
Office Supplies	[REDACTED]	[REDACTED]
Insurance	[REDACTED]	[REDACTED]
Trophy's	[REDACTED]	[REDACTED]
Total Expenses	\$ [REDACTED]	\$ [REDACTED]

Section 501(c)(3) of the Code provides, in part, for the exemption from Federal income tax:

Organizations organized and operated exclusively for charitable, religious or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Regulations states:

In order to qualify under section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more exempt purposes. If an organization fails to meet either the organizational or operational test, it is not exempt.

Section 1.501(c)(3)-1(d)(1)(ii) of the Regulations states:

An organization is not operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. It must not be operated for the benefit of designated individuals or the persons who created it.

Section 1.501(c)(3)-1(d)(3) of the Regulation states:

The term "educational" as in relation to (a) the instruction or training of the individual for the purpose of improving or training of the individual for the purpose of improving or developing his capabilities, or (b) the instruction of the public on subjects useful to the individual and beneficial to the community.

Rev. Rul. 71-421, 1971-2 C.B. 229, provides that an organization which was formed to promote the ownership and training of purebred dogs and conducting obedience training classes, may not be reclassified as an educational organization exempt under section 501(c)(3) of the Code.

You have not established that your activities are for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals. Accordingly, we conclude that you do not qualify for recognition of exemption under section 501(c)(3) of the Code.

A determination has also been made as to whether or not you qualify as a social club under section 501(c)(7) of the Code.

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of 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 states that 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. 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.

Section 1.501(c)(7)-1(b) of the Regulations states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, and is not exempt under section 501(a) of the Code. However, an incidental sale of property will not deprive a club of its exemption. As previously noted, section 501(c)(7) of the Code requires that substantially all of a social club's activities be social or recreational activities for members.

[REDACTED]

Public Law 94-568, 1976-2 C.B. 596, provides that a social club may receive up to 35 percent of its gross receipts, including investment income from sources outside its membership without losing exemption. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 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 the total receipts.

Rev. Rul. 79-145, 1979-1 C.B. 360, defines amount paid to a social club by visiting members of another social club are amounts paid by nonmembers, even though both clubs are of like nature and the amounts paid are for goods, facilities, or services provided by such social club under a reciprocal arrangement with such other social club.

Since more than 15 percent of the gross receipts are derived from the use of your facilities or services by the general public your organization does not meet the requirements of Public Law 94-568, 1976-2 C.B. 596. Accordingly, we conclude that you do not qualify for recognition of exemption under section 501(c)(7) of the Code.