

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

10 MAY 1963

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 301(c)(7) of the Internal Revenue Code.

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

Your purpose as stated in your articles of incorporation ". . . shall be to provide hunting, recreational and athletic facilities for members and their families." You further state in your 1924 application that your organization was, "Formed for hunting, recreational, and athletic purposes for a limited number of members and their families and friends on privately owned land and lodge. Main activity is hunting, can be used for snowmobiling, snow shoeing, cross country skiing, etc."

You state the only qualification for membership is that "Each member must be elected by a vote of the majority of the other members, must pay his share of the net worth of the corporation and must pay his assessed share of the yearly expenses of the corporation. Each member has one vote and is entitled to all privileges." There are no actual membership dues. You state that "membership passes to the surviving spouse and children upon death of a member and, if none, membership terminated, a new member may purchase it from the corporation."

In response to our question about what type of organized social and recreational program you provide for the members, you responded in your letter, "There is no organized program." Further, you state, "The cabin is used for family outings such as hunting, hiking, snowmobiling, retreats for youth groups and for relaxation. If we want a private gathering we notify other members that the cabin will be occupied during such a time." You indicate that your "members are all related by blood or marriage." (Emphasis Added)

The various relationships quoted from your 1924 application are as follows:

- Uncle to [REDACTED]
All [REDACTED] are brothers.
- Brother-in-law to [REDACTED]
- Cousin to [REDACTED]
- Brother-in-law to [REDACTED]
[REDACTED] married [REDACTED]'s sisters.

Yours is not a dues paying membership organization. You indicate that, "No dues are collected, only assessments for expenses." You state that, "The value of each membership shall be the prorated share of the net worth of the corporation."

Section 501(c)(7) of the Code provides for exemption from Federal Income Tax of 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.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that 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 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.

Corporations entitled to exemption from Federal Income Tax under the provisions of Section 501(c)(7) must be bona fide clubs in their form of organization and method of operation, your organization is presently a group of interrelated family members who do not necessarily coincide. There is no organized social and/or recreation program. There is no payment of dues, and presently, this "club" is limited to family members. The statute prohibits exemption if any part of the organization's net earnings inures to the benefit of any private shareholder. The term "shareholder" includes a member of an organization. In this case, you are asking for tax-exempt status for land and a lodge whose shareholders are all interrelated family members.

We have concluded that your club is operated in the personal interests of a few people.

Accordingly, we hold that you are not entitled to exemption from Federal Income Tax as an organization described in section 501(c)(7) of the Code. You are required to file income tax returns annually with your District Director.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

If you agree with this determination please sign and return the enclosed Form 6018.

Sincerely yours,


District Director

Enclosures:
Form 6018
Publication 892