

DEC 9 1986

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.

This information presented shows that you were incorporated [REDACTED], under the [REDACTED] Nonprofit and Cooperative Association Act. Your purposes and powers as stated in your Articles of Incorporation are briefly as stated:

"To organize, equip and operate, either directly or through agents, a social and fraternal club for its members, to cultivate social, cultural and recreational intercourse among its members, to establish a center to promote friendship, sociability and cultural exchange among its members and to engage in, support and promote such educational, charitable, cultural, athletic and recreation activities as are not prohibited to such a club by the applicable laws of the state of [REDACTED] respecting corporations and/or alcoholic beverages....To obtain a license from the Alcoholic Beverage Control Commission for the storage, consumption, and sale of liquor."

Your activities as stated in the Form 1024, Application for Recognition of Exemption are to operate a private club under the liquor control laws of the State of [REDACTED]. Your membership is open to all persons twenty one years of age and older who are of good moral character. Each new member shall pay an initiation fee of \$[REDACTED] and in order to maintain their membership on an active basis must pay dues of \$[REDACTED] per month. These dues may be paid on a yearly basis. Members have a three year grace period to renew an expired membership without having to apply for as new membership.

Guest cards may be issued for a period not to exceed two weeks. A \$[REDACTED] assessment fee will be charged for guest cards. Guests may be admitted to the club upon presentation of a guest card. Guests do not have to be accompanied by a club members.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname		[REDACTED]					
Date		[REDACTED]	12/9/86				

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"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."

Revenue Ruling 67-6, 1967-1 C.B. 142, held that the term "club" presupposes the existence of a common objective among members. In other words, passive association is not enough; members must be joined by a mutuality of active interests or shared goals justifying the existence of the organization.

The determination whether an organization is a club in the sense of the statute also can depend on criteria other than the relationship of its members to each other. The organization and operation of a club in a manner which constitutes a subterfuge for doing business with the public is inconsistent with the term "club" as used in Code section 501(c)(7). In determining whether an organization is a business operation rather than a club consideration is given as to whether the membership requirements are broad or vaguely stated and whether dues and initiation fees are so low that transient use by the general public is encouraged.

Revenue Ruling 66-225, 1966-2 C.B. 227 describes a club that was operated as an integral part of a taxable organization's business. The club was organized to operate a cocktail lounge and cafe as an integral part of a motel and restaurant business. The club issued annual memberships, weekly memberships for persons temporarily residing in the hotel, and 90-day memberships. It was held that the club was organized to operate a cocktail lounge and cafe as an integral part of the motel and restaurant. As such it was not a club organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes.

On the basis of the information presented, we conclude that you are not organized and operated within the provisions of section 501(c)(7) of the Code. Your social and recreational features are not a material purpose of the club, consistent with exemption under section 501(c)(7), but are subordinate and incidental to the predominate purpose of engaging in the business of selling liquor to an unlimited number of members. Membership is virtually a guise under which an unlimited number of individuals may utilize the club facilities.

It follows that you are required to file Federal income tax returns on Form 1120.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

[REDACTED]

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

[REDACTED]  
District Director

Enclosures:  
Publication 892  
Form 6018