

UJL
501.07.05



Department of the Treasury
Internal Revenue Service

Date: July 2, 2003

Form:
990

Tax Year(s) Ended:

Person to Contact:

Contact Telephone Number:

CERTIFIED MAIL

Dear Sir or Madam:

We have completed our examination of your Form 990 for the periods ended
/ It has been determined that your exempt status should be revoked.

The enclosed report of examination states the basis for the revocation. You have concurred with our determination by signing Form 6018, Consent to Proposed Adverse Action. A copy of which is enclosed. Accordingly, your exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code has been revoked effective

You are required to file Federal income tax return, Form 1120, with the Internal Revenue Service Center. We have secured the delinquent forms 1120 for the periods ended and When filing future returns, remember the Internal Revenue Code section 277 may limit your deductions.

If we do not hear from you within 30 days of the date of this letter, this determination will be considered final and no further action will be required.

Please keep a copy of this report with your permanent records.

If you have any questions regarding this matter, please contact the person whose name and telephone number are shown above.

Sincerely yours

A handwritten signature in black ink that reads "R.C. Johnson".

R.C. Johnson
Director, EO Examination

Enclosure(s):
Publication 892

Form 886-A	EXPLANATION OF ITEMS	Schedule or Exhibit No.
Name of Taxpayer:		Year Ended
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Issue:

Does the taxpayer continue to qualify as a tax-exempt organization under Internal Revenue code section 501(c)(7)?

Facts:

..... was granted exemption from tax under IRC section 501(a) as an organization described in IRC section 501(c)(7). The exemption was granted

..... was formed to promote and engage in the sport of curling, and to provide entertainment, social contacts and recreation for persons interested in promoting and engaging in the sport of curling. To also promote interest in the sport of curling, to teach the sport of curling, to engage in competitive bonspiels, to build international understanding and cooperation by promoting championship curling teams in the membership to compete in international competitions, and to provide for the general pleasure, physical welfare and recreation of its members.

Membership was available to anyone over the age of 18 who was interested in the sport of curling. A fee was assessed that gave the member a share of ownership in the club.

..... offered non-members use of the facility through hall rentals for day and evening events.

Non-member use was estimated by the organization to be 25%.

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Law & Argument:

Section 501(c)(7) of the Code provided for exemption from federal income tax of clubs organized and operated 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 provides that 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 Income Tax regulations provides that a club which engages in business, such as making its social and recreational facilities available to the general public, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes and is not exempt under section 501(a) of the Code.

Revenue Procedure 71-17, 1971-1 C.B. 683, provides audit guidelines for determining the effect of gross receipts derived from non-members use of a social club's facilities Section 3.02 defines the term "total gross receipts" as receipts from normal and usual activities of the club.

Section 501(c)(7) was amended in 1976 by Public Law 94-568 to provide that section 501(c)(7) organizations could receive some outside income without losing their exempt status. Senate Report No. 94-1318 (1976), 2d Session, 1976-2 C.B. 597, at page 599 explains that a social club is permitted to receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. It is also intended that within this 35 percent amount not more than 15 percent of the gross receipts should be derived from the use of social club facilities or services by the general public. In effect, the latter modification increases from 5 percent as per Rev. Proc. 71-17, 1971-1 C.B. 683 to 15 percent the proportion of gross receipts a

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club may receive from making its club facilities available to the general public without losing its tax-exempt status.

IRC section 277 stated that a social club that is not exempt from tax and that is operated primarily to furnish services or goods to members may not offset any losses attributable to the members against income attributable to non-members. Deductions attributable to providing goods or services to members in excess of revenues from members shall be treated as a deduction attributable to members in the succeeding year. This section makes it necessary to keep track of members and non-member revenues and expenses separately.

Non-member income was significantly higher than the amounts allowed for an exempt social club. Based on the information gathered as a result of the tax examination, the club derived over 46 percent of its gross revenues from non-members.

Taxpayer's Position:

The taxpayer agreed with the proposed revocation.

Conclusion:

Non-member income for the () was in excess of the 15 percent limit for an exempt social club and is expected to remain that way. () exempt status should be revoked effective

Income Source Worksheet

Agent:

Form 990 TYE:

Calculation of non-member income:

$$\frac{\text{Gross income from non-members}}{\text{Total gross income}} = \% \text{ of income from non-members}$$

Gross income from hall rental			\$12,040.00
+ <u>flea market rental</u>	=		<u>6,420.20</u>
Gross income from non-members			\$18,460.20

Total gross income			\$114,818.00
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$$\frac{\text{Gross income from non-members}}{\text{Total gross income}} = \frac{18,460.20}{114,818.00}$$

$$= \% \text{ of income from non-members} = 16.07\%$$

Gross income from hall rental			\$12,040.00
+ flea market rental	=		6,420.20
+ Bonspiels	=		14,849.00
+ Bar revenue	=		18,835.00
+ Coffee Bar	=		<u>1,761.23</u>
Gross income from non-members	=		\$53,905.43

$$\frac{\text{Gross income from non-members}}{\text{Total gross income}} = \frac{53,905.43}{114,818.00}$$

$$= \% \text{ of income from non-members} = 46.95\%$$