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501.07-00

**Internal Revenue Service**

**Department of the Treasury**

Date: August 14, 2001

**Person to Contact:**

**Badge Number:**

**Contact Telephone Number:**

**Contact Address:**

**CERTIFIED MAIL**

Dear Sir or Madam:

This is a final adverse determination letter as to your exempt status under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(7). Recognition of your exemption under Internal Revenue Code is retroactively revoked to \_\_\_\_\_ for the following reason(s):

You have not been operated exclusively for exempt purposes within the meaning of Internal Revenue Code section 501(c)(7). You received one hundred percent of your gross receipts from investment income, such as dividends and royalties.

A copy of Form 6018, signed on \_\_\_\_\_, reflecting your agreement to the proposed action is enclosed.

Section 501(c)(7) of the Code provides for exemption from Federal income tax for clubs organized and operated for pleasure, recreation, and other non-profitable purposes, substantially all the activities of which for such purposes and not part of the net earnings of which inure to the benefit of any private individual.

Section 1.501(c)(7)-1 of the Income Tax Regulations states that in general, this exemption extends to clubs which are supported solely by income from membership fees, dues, and assessments.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations provides, in part, that a club which engages, 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 non-profitable purposes, and is not exempt under section 501(a).

Section 501(c)(7) of the Code was clarified by Public Law 94-568 to provide that section 501(c)(7) organizations could receive some outside income without losing their exempt status. A social club is permitted to receive up to 35 percent of its gross receipts, including investment income, from outside of its membership without losing its tax-exempt status.

You will be required to file Federal income tax returns on Forms 1120 for the tax years ending \_\_\_\_\_ . Forms 1120 for all years following \_\_\_\_\_ must be filed with the appropriate Service Center.

This is a final adverse determination of your exempt status under section 501(c)(7) of the Internal Revenue Code.

This letter should be kept within your permanent records.

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

Sincerely,

A handwritten signature in black ink that reads "R. C. Johnson". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

R. C. Johnson  
Director, EO Examinations