

An organization formed for the purpose of promoting and fostering the appreciation and techniques of the operation of stock cars and which conducts stock car racing events sponsored by community organizations under agreements whereby a certain portion of the profits is received by the organization for payment of expenses and prizes to members who participate in the races does not qualify for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code of 1954.

Advice has been requested concerning the exempt status, for Federal income tax purposes, or an organization formed for the purposes of fostering the appreciation and techniques of the operation of stock cars and conducting stock car racing events.

The organization is a nonprofit corporation formed to promote and foster the appreciation and techniques of the operation of stock cars and to promote sportsmanship among all its members. It conducts irregular meetings of members and occasional social activities. Its primary activity is conducting stock car racing events in which only those members who own stock cars, except in the case of special events, may participate. The racing events are conducted on conjunction with the activities of, and are sponsored by, community organizations located in neighboring towns in an agricultural area. Such events are open to the general public upon payment of admission fees set by the sponsoring organizations. By oral agreement with the sponsoring organization, the instant organization receives the amounts necessary to pay expenses of advertising, race officials, trophies, and other race expenses, together with a distributive share of the net race receipts, either on a percentage or flat guarantee basis, which is distributed to those members who either won or 'placed' in the race events. The income realized on these racing events constitutes a major portion of the organization's gross receipts.

Section 501(c)(7) of the Internal Revenue Code of 1954 provides for the exemption 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 39.101(9)-1 of Regulations 118 relating to the exemption of organizations described in the above section and made applicable to the provisions of the Internal Revenue Code of 1954 by virtue of Treasury Decision 6091, C.B. 1954-2, 47, provides, in part, as follows:

'The exemption granted by section 101(9) applies to practically all social and recreation clubs which are supported by membership fees, dues and assessments. If a club engages in traffic \* \* \* for profit, such club is not

organized and operated exclusively for pleasure, recreation or social purposes. \* \* \*'

Inasmuch as the organization conducts annually a number of public stock car racing events from which it receives a large part of its total revenue, which it uses to defray expenses and to pay prizes to its members who take part in the racing events, it is engaged in business with the public for profit and is not organized and operated exclusively for pleasure, recreation, or social purposes.

In view of the foregoing, it is held that an organization formed for the purpose of promoting and fostering the appreciation and techniques of the operation of stock cars and conducting public stock car racing events sponsored by community organizations, from which it receives a portion of the net earnings, which inures to the benefit of certain of its members, does not qualify for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code of 1954. Neither does such organization qualify for exemption under any other subsection of section 501(c) of the Code.