

A nonprofit organization which provides entertainment for its members does not qualify for exemption under section 501(c)(7) of the Internal Revenue Code of 1954 where it is controlled by a taxable corporation and operated as an integral part of such corporation's business.

Advice has been requested whether a nonprofit organization incorporated to provide entertainment for its members qualifies for exemption as a social club under section 501(c)(7) of the Internal Revenue Code of 1954 where it is controlled by a taxable corporation and operated as an integral part of such corporation's business.

The club's articles of incorporation state that its purpose is to operate a private club for its members and to provide entertainment, food, and refreshment for them. The club has three classes of memberships: (1) An annual dues paying membership; (2) a 90-day membership; and (3) a weekly membership for persons temporarily residing at an adjoining motel.

The club has a dining area and a cocktail lounge. The club's patrons are permitted to bring liquor and alcoholic beverages to the club.

The clubhouse with all fixtures and equipment is leased by the organization from the motel for a nominal fee, but the motel retains the exclusive right to serve food and other beverages to the club's members. The club has no net worth. Its income is received from membership dues and fees, about one-fourth of which is realized from temporary members. Practically all of the organization's income is spent for entertainment.

The club was formed and incorporated by the owners of the motel. The motel serves the club's patrons from its own restaurant which also adjoins the motel. All waitresses, bartenders, and other persons working at the club are motel employees. All receipts from meals and beverages are received directly by the motel and its personnel.

Section 501(c)(7) of the Code provides that clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes are exempt from Federal income tax provided no part of the net earnings inures to the benefit of any private shareholder.

Under the circumstances described above the motel owners organized the club to operate a cocktail lounge and cafe as an integral part of their motel and restaurant business. Therefore, the club is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.

Accordingly, it does not qualify for exemption under section

501(c)(7) of the Code.