

Rev. Rul. 67-428, 1967-2 C.B. 204

A federation of clubs does not qualify for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

G.C.M. 13067, C.B. XIII-2, 148 (1934), superseded.

The purpose of this Revenue Ruling is to update and restate under the current statute and regulations the portion of G.C.M. 13067, C.B. XIII-2, 148 (1934), relating to the question of whether a federation of clubs may be exempt from Federal Income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The portion of G.C.M. 13067 relating to the effect upon exemption of the receipt of income from tournaments and investments has been covered in Revenue Ruling 65-63, C.B. 1965-1, 240, and Revenue Ruling 66-149, C.B. 1966-1, 146.

The organization was formed for the purpose of governing and developing an amateur sport in the United States. Its members are clubs devoted to the pursuit of the sport; it has no individual members. Delegates appointed by the member clubs meet periodically to conduct the affairs of the federation.

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, if no part of the net earnings inures to the benefit of any private shareholder.

Revenue Ruling 58-589, C.B. 1958-2, 266, sets forth the criteria for exemption under section 501(c)(7) of the Code and provides that a club must have a membership of individuals, personal contacts, and fellowship. A commingling of members must play a material part in the activities of the organization.

Although fellowship need not be present between each member and every other member of the club, it must constitute a material part of the organization's activities. In this respect, statewide or nationwide organizations made up of individuals, but broken up into local groups, satisfy the requirement if fellowship constitutes a material part of the activities of each local group.

The requirement of individual membership derives from the requirement of personal contacts and fellowship between members.

It is evident that fellowship between members cannot play a material part in the activities of an organization composed of artificial entities. Accordingly, the federation is not a club within the meaning of section 501(c)(7) of the Code and, therefore, does not qualify for exemption from Federal income tax under that section.

G.C.M. 13067 is hereby superseded, since the outstanding

portion thereof is restated under current law in this Revenue Ruling.