

A social club that regularly holds its golf course open to the general public, charging established green fees that are used for maintenance and improvement of club facilities, is not exempt under section 501(c)(7) of the Code.

Advice has been requested whether, under the circumstances described below, a social club qualifies for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The club was organized for social and recreational purposes. Its principal function is to operate a golf course for its members, who pay annual dues. However, the club regularly holds the golf course open to the general public for use upon the payment of an established green fee. Green fees from the general public have constituted a significant portion of the club's total receipts from all sources for each of the past five years. The income from this source is used to help defray the expense of maintaining and improving the golf course.

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

Section 1.501(c)(7)-1 of the Income Tax Regulations provides that, in general, the exemption extends to social and recreation clubs supported solely by membership fees, dues, and assessments. However, 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 nonprofitable purposes, and is not exempt under section 501(a).

Based on the facts presented, this golf club does not qualify for exemption from Federal income tax under section 501(c)(7) of the Code since (1) it is engaged in business with the general public by regularly holding its golf course open to the public for use upon payment of established green fees, and (2) the income from this source is inuring to the benefit of the members because it is used for maintenance and improvement of club facilities. See Rev. Rul. 58-589, C.B. 1958-2, 266, and Rev. Rul. 60-324, C.B. 1960-2, 173.