Rev. Rul. 69-220, 1969-1 C.B. 154

A social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses and to improve and expand its facilities is not exempt under section 501(c)(7) of the Code; G.C.M. 16807 and G.C.M. 20647 superseded.

The purpose of this Revenue Ruling is to update and restate under the current statute and regulations the positions set forth in G.C.M. 16807, C.B. XV-2, 157 (1936), and G.C.M. 20647, C.B. 1939-1 (Part 1), 125. This ruling relates to whether a social club that receives income from leasing a part of its property and uses this income to pay its operating expenses and to remodel and expand its facilities is exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

An organization was formed as a nonprofit membership corporation to operate a social club for the pleasure and recreation of its members. The club purchased an office building, part of which it uses as a clubhouse. That part of the building not used as a clubhouse is leased to commercial tenants.

The club's income consists of initiation fees, dues, assessments, and rent. The club's gross rental income from its commercial tenants amounts to 75 percent of its total gross income. The rental income is used to pay the operating expenses of the building, including the part used as a clubhouse. The club uses the net income from the rental operation to make capital improvements and to expand the facilities offered to its members.

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, if no part of their net earnings inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that in general this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. Section 1.501(c)(7)-1(b) of the regulations provides that a club which engages in business, 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 nonprofitable purposes.

Based on the facts here presented, this club is not exempt from Federal income tax under section 501(c)(7) of the Code because it is regularly engaged in a business ordinarily carried on for profit and because net income from the activity is inuring to the members of the club in the form of improved and expanded

facilities. See United States v. Fort Worth Club of Fort Worth, Texas, 345 F.2d 52 (1965), modified and reaffirmed 348 F.2d 891 (1965), The Coastal Club, Inc. v. Commissioner, 43 T.C. 783 (1965), affirmed per curiam 368 F.2d 231 (1966), certiorari denied, 386 U.S. 1032. See also Rev. Rul. 58-589, C.B. 1958-2, 266.

G.C.M. 16807 and G.C.M. 20647 are hereby superseded since the positions set forth therein are restated under current law in this Revenue Ruling.