

Social clubs; conducting bowling tournaments. A nonprofit organization that conducts regular bowling tournaments for its members qualifies for exemption under section 501(c)(7) of the Code where its overall program is designed to effect a commingling of members for their pleasure and recreation. The awarding of cash prizes to tournament winners from tournament entry fees is not an inurement of net income to members.

Advice has been requested whether a nonprofit organization that holds bowling tournaments and pays cash prizes, under the circumstances described below, qualifies for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The organization is a membership organization formed for the purpose of providing bowling tournaments and recreational bowling competition among its members. Membership is by invitation only and all applicants must be approved by the organization's Board of Directors. Members pay annual dues. The organization conducts monthly bowling tournaments and an annual 'tournament of champions' for members at which it awards cash prizes to the winners. The members are required to pay entry fees in order to participate in the tournaments. Prize money is paid from the entry fees.

The organization derives its income solely from membership dues and tournament entry fees.

In addition to the tournaments, the organization has a minimum of one general membership meeting per month, as well as an annual membership meeting and banquet. Members are encouraged to bring guests to the annual meeting. The annual meeting is held in a lounge where music and a catered buffet-type dinner are provided for a reasonable charge to the members and their guests.

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 non-profitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities

or in connection with club activities. See Rev. Rul. 69-68, 1969-1 C.B. 153.

Rev. Rul. 58-589, 1958-2 C.B. 266, provides that in order for an organization to establish that it is a club organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, it must have an established membership of individuals, personal contacts, and fellowship. A commingling of the members must play a material part in the life of the organization.

The activities of this organization satisfy the commingling requirement set out above as the bowling tournaments and annual meetings constitute affairs designed to provide recreation and pleasure to its members. The awarding of prizes paid from entry fees does not constitute inurement of the organization's net income but is in furtherance of the members' pleasure and recreation.

Accordingly, the organization described above qualifies for exemption from Federal income tax under section 501(c)(7) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1025, Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(7) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.