

INTERNAL REVENUE SERVICE

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Dear Mr. \*\*\*\*\*:

This letter is in response to your inquiry to the Commissioner Tax Exempt and Government Entities, dated July 25, 2000, regarding classes of members and inurement for organizations described in section 501(c)(7) of the Internal Revenue Code.

In general, many clubs establish several types of membership, such as regular, associate, corporation-sponsored and corporate. A regular member has the right to vote and determine the management, operation and control of the club. An associate member has no right to vote and will not generally share in club assets in the event of dissolution. In some cases, both regular and associate members may be entitled to the use and enjoyment of all club facilities, or may be limited to the use of a part of the facilities. A corporation-sponsored member is an individual who is sponsored by a corporation, partnership, or other business entity, and has been accepted by the membership committee of the club. Such a member has all the rights and privileges of regular individual members. A corporate member is a membership issued to a corporation, an artificial entity. The corporation designates which of its officers and employees may use the club's facilities. This type of membership is not within the contemplation of the statute, and a club having such membership is, in fact, dealing with the general public.

The statute prohibits exemption if any part of the organization's net earnings inure to the benefit of any private shareholder. The term "shareholder" includes a member of an organization. One type of inurement occurs when clubs have more than one class of members. If, for example, nonvoting members pay disproportionately more for services and use of facilities than voting members, there is inurement and the club does not qualify for exemption under section 501(c)(7) of the Code. However, a difference in dues or fees does not result in inurement if there is a reasonable basis for the difference, such as when the classes of members have different rights to use of club facilities or club assets.

You asked if the use of initiation deposits, dues and other revenues derived from nonresident members that are used to pay legal expenses from which they have gained no benefit would be considered inurement. Your request involves a specific set of facts pertaining to a specific organization and would require additional information as to the reason for the initiation deposits for nonresident members and no initiation deposit for owners. Requests for rulings pertaining to a specific set of facts should be the subject of a private letter ruling. If you would like to request a ruling based upon specific facts for your organization, it should be submitted per Rev. Proc. 2000-4 with the appropriate user fee as described in Rev. Proc. 2000-8.

If you have any questions about this issue, please call \*\*\*\*\* , ID # \*\*\*\*\* , at (202) \*\*\*\*\* . We hope the above information will be helpful.

Sincerely yours,

Gerald V. Sack  
Manager, Exempt Organizations  
Technical Group 4