

INTERNAL REVENUE SERVICES

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April 13, 2001

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Attention: xxxxxxxxxxxx

Dear Mr. xxxxx:

Thank you for your letter dated March 13, 2001, concerning xxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxx They want help with their application for tax-exempt status.

According to your constituent's letter, xxxxxxxxxxxxxxxxxxxxxxxxxxxx applied for tax- exempt status with the IRS. However, because it is a dance club for singles that is open to the public, we consider it a business ordinarily operated for profit. Therefore, it is generally not eligible as a public charity.

However, the organization may be eligible as a social club under section 501(c)(7) of the Internal Revenue Code (the Code). Social clubs are membership organizations where individuals join together to provide themselves with recreational or social facilities on a mutual basis, without further tax consequences. Because that is the purpose, the organization's income sources are limited to membership dues.

Social clubs must maintain a membership list for the IRS's record-keeping requirements. For example, Revenue Procedure 71-17, 1971-1 C.B. 683, describes the records required when non-members use a club's facilities and the circumstances when a host-guest relationship is assumed.

Because social clubs are membership organizations, they can receive only a certain amount of income from non-members without losing their tax-exempt status under section 501(c)(7). They can receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership. They can also receive no more than 15 percent of gross receipts from non-member use of club facilities and/or services. If an organization's income exceeds one or both of these limitations, then it may still be able to show that "substantially all" of its activities are for pleasure, recreation, and other nonprofit purposes, and therefore, keep its tax-exempt status.

I hope this information is helpful. If you or your constituent want to discuss this further, please call xxxxxxxxxxxxxxxxxxxxxx, xxxxxxxxxxxxxx, of this office at xxxxxxxxxxxxxx.

Sincerely,

/s/ Tom Miller

Steven T. Miller
Director, Exempt Organizations