



**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

TEGE:EO:Examinations

1100 Commerce Street

MS: 4957 DAL

Dallas, TX 75242

Number: **200702044**

Release Date: 1/12/07

Date June 26, 2006

UIL: 501.07-01

A

Taxpayer Identification Number:

B

Form: 990

Tax Year Ended: C

Person to Contact: ID Number:

Contact Numbers:

Phone:

Fax:

Legend:

A = Organization's Name and address

B = Taxpayer identification number

C = Tax year ended

D = Date of Technical Advice Memorandum

E = Effective date of revocation

Certified Mail

Dear _____ :

This letter is in reference to your status for Federal income tax purposes as an organization described in section 501(c)(7) of the Internal Revenue Code (the Code).

As a result of an audit of your organization's activities, Form 990 for the period ending C, it was determined that the organization failed to establish that it meets the requirements for continued recognition of exemption under section 501(c)(7) of the Code.

Section 501(c)(7) of the Code provides for exemption from Federal income tax for clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of

the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private individual.

Section 1.501(c)(7)-1(b) of the Income Tax 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, and is not exempt under section 501(c)(7) of the Code. Solicitation by advertisement or otherwise for public patronage of its facilities is *prima facie* evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes.

Revenue Ruling 58-589, 1958-2 C.B. 266, discusses the various criteria for recognition of exemption under section 501(c)(7) of the Code. In order to establish that a club is organized and operated for pleasure, recreation and other nonprofitable purpose, "there must be 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 revenue ruling also states 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, etc., may not be considered as being organized and operated exclusively for pleasure, recreation, or social purposes. A club will not be denied exemption merely because it receives income from the general public, that is, persons other than members and the bona fide guests, or because the general public on occasion is permitted to participate in its affairs, provided such participation is incidental to and in furtherance of its general club purposes and it may not be said that income there from is inuring to members. This is generally true where the receipts from nonmembers are no more than enough to pay their share of the expense.

Section 501(c)(7) was amended in 1976 by Public Law 94-568 to provide that section 501(c)(7) organizations could receive some outside income without losing their exempt status. The legislative history provides that the decision as to whether substantially all of the organization's activities are related to its exempt purposes shall continue to be based upon all the facts and circumstances. It is intended that these organizations are permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without losing their tax-exempt status. It is also intended that within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public.

Based on the Technical Advice Memorandum dated D, the organization did not adequately satisfy both the activities test and the member income test. The organization's annual street festival is carried on to raise money from the general public in order for the organization to achieve its goals. This activity, which is not incidental, trivial, or nonrecurrent, is not a traditional social club activity within the meaning of section 501(c)(7), and does not further the organization's purposes. Also, the income earned by

the organization from its annual street festival was far in excess of the 35 percent allowable under Public Law 94-568. Copy of Technical Advice Memorandum dated D is attached.

Accordingly, it is held that you are not a social club within the meaning of section 501(c)(7) of the Code. Therefore, your tax-exempt status as described in section 501(c)(7) is hereby revoked. You have not been granted relief under section 7805(b) of the Code; therefore, revocation of your tax-exempt status is effective as of E. You are required to file Federal income tax returns, Form 1120.

This is a final adverse determination of your exempt status under section 501(c)(7) of the Internal Revenue Code. Consideration to section 277 of the Code should be made when filing Forms 1120.

This is a revocation letter.

Sincerely,

Marsha A. Ramirez
Director, Exempt Organizations
Examinations

Enclosure:
Technical Advice Memorandum