

**Internal Revenue Service**  
**Tax Exempt and Government Entities Division**  
Exempt Organizations: Examinations  
1100 Commerce Street MC 4920 DAL  
Dallas, Texas 75242

**Department of the Treasury**

UIL: 9999.98-00

Release Number: **201322043**  
Release Date: 5/31/2013  
Date: February 15, 2013  
LEGEND  
ORG – Organization name  
XX – Date Address - address

**Taxpayer Identification Number:**  
**Form:**  
**Tax Period(s) Ended:**  
**Person to Contact/ID Number:**  
**Contact Numbers:**  
Phone:

ORG  
ADDRESS

Fax:

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Dear \_\_\_\_\_,

In a determination letter dated March 15, 19XX, you were held to be exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(7) of the Code. Accordingly, your exemption from Federal income tax is revoked effective December 1, 20XX. This is a final letter with regard to your exempt status.

We previously provided you a report of examination explaining why we believe revocation of your exempt status was necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. On October 11, 20XX, you signed Form 6018-A, *Consent to Proposed Action*, agreeing to the revocation of your exempt status under section 501(c)(7) of the Code.

You are required to file Federal income tax returns for the tax period(s) shown above. If you have not yet filed these returns, please file them with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free, 1-877-777-4778, and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Thank you for your cooperation.

Sincerely,

Nanette M. Downing  
Director, EO Examinations



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

**DEPARTMENT OF THE TREASURY**

Internal Revenue Service

M/S 1112

PO Box 12307

Ogden, UT 84412

June 13, 2011

ORG  
ADDRESS

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Date and Time of Appointment:

Place of Appointment:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Dear \_\_\_\_\_ :

I am writing to confirm our appointment for the examination of the above periods.

We realize some organizations may be concerned about an examination of their returns. We hope we can relieve any concerns you may have by briefly explaining why we examine exempt organization returns and what your appeal rights are if you do not agree with the results.

We examine returns to verify the correctness of income or gross receipts, deductions and credits, and to determine that the organization is operating in the manner stated and for the purpose set forth in its application for recognition of exemption. In many cases, we close examinations without changes.

When we complete the examination, we will explain our recommendations and how they may affect your exempt status or tax liability, such as employment, excise or unrelated business income taxes. You should fully understand any recommended changes and their ramifications. Please do not hesitate to ask questions about anything that is not clear to you.

If we recommend changes involving your tax liability and you agree with the changes, we will ask you to sign an agreement form. By signing the form, you will indicate your agreement to the amount shown as a refund due or additional tax owed.

You do not have to agree with our recommendations. You may request a conference at a higher level as explained in the copy of the appeal procedures that we will provide you.

If you do not wish to have someone present through the examination, we would appreciate having an officer or representative available at the beginning of the examination to discuss the operations of the organization and again at the end of the examination to discuss the results.

If we conduct our examination with your representative, you must file a Power of Attorney in order for your representative to receive or inspect confidential information. You may use Form 2848, *Power of Attorney and Declaration of Representative* (or any other properly written power of attorney or authorization), for this purpose.

To help make the examination as brief as possible, please have the records listed on the attached Information Document Request (IDR) available for the year(s) under examination.

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Shay Green

Enclosures:  
Publication 1  
IDR  
Notice 609

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
Mail Stop 1112, PO Box 12307  
Ogden, UT 84412

ORG  
ADDRESS

DATE OF THIS NOTICE:

September 27, 2011

CONTACT PERSON/ID NUMBER:

CONTACT TELEPHONE NUMBERS:

Toll Free  
Long Distance

RESPONSE DUE DATE:

Employer Identification Number:

Tax Period(s):

Form(s):

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Dear \_\_\_\_\_ :

We have enclosed a copy of our report of examination explaining why we believe revocation of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, The Examination Process, explains how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

You may also request that we refer this matter for technical advice as explained in Publication 892, Exempt Organization Appeal Procedures for Unagreed Issues. If a determination letter is issued to you based on technical advice, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If you accept our findings, please sign and return the enclosed Form 6018, Consent to Proposed Adverse Action. We will then send you a final letter revoking your exempt

status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.  
Thank you for your cooperation.

Sincerely,



Nanette M. Downing  
Director, EO Examinations

Enclosures:  
Publication 892  
Publication 3498  
Form 6018  
Report of Examination  
Envelope

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>ORG</b>		<b>Year/Period Ended</b>  November 30, 20XX

LEGEND

ORG - Organization name      XX - Date      City - city      CO-1 - 1<sup>st</sup> COMPANY

**ISSUES**

Whether the tax-exempt status of ORG a 501(c)7 social club that operates a golf course should be revoked.

**FACTS**

The subject organization is recognized as a section 501(c)(7) tax-exempt organization. According to its articles of incorporation, the primary purpose of the organization is to promote and practice for amusement and social recreation for activities such as, golf, polo, tennis, swimming, bowling, horseback riding, dancing, and cards. Membership is open to CO-1 employees, along with City and City area residents.

The organization is advertising to the area residents through internet ads and in local monthly publications. They are advertising golf at a discount rate for the general public.

The Revenue Agent completed a sample of five months of income from the organizations daily receipt summary. The organization had % of non-member income on the use of the golf course.

	<u>NON-MEMBER</u>	<u>Member</u>
MARCH		
JUNE		
JULY		
OCTOBER		
NOVEMBER		
TOTAL		
Total Percent Non-Member Income		%

**LAW**

Section 501(c)(7) of the Code provides exemption 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 inure to the benefit of any private shareholder.

Social clubs exempt under IRC 501(c)7 may receive up to 35% of its gross receipts including investment income from sources outside its membership. Of the 35%, up to 15% of the gross receipts may be derived from the use of the club facilities or services

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>ORG</b>		Year/Period Ended November 30, 20XX

by the general public or from other activities not furthering social or recreational purposes for members.

1.501(c)7-1 Income Tax (b) (b) 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 non-profitable purposes, and is not exempt under section 501(a). 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. However, an incidental sale of property will not deprive a club of its exemption

Revenue Procedure 71-17 Sec 2.2 states, "Where a club makes its facilities available to the general public to a substantial degree; the club is not operated exclusively for pleasure, recreation, or other non-profitable purposes".

### **TAXPAYER'S POSITION**

The organization agreed to the revocation of their tax exempt status. The President signed the Form 6018. The organization also filed Form 1120 for the tax years ended 20XX, 20XX, and 20XX.

### **GOVERNMENT'S POSITION**

As a result of our examination of your Form 990 return for periods ending November 30, 20XX we have determined that your organization no longer qualifies as an exempt social club described in Internal Revenue Code section 501(c)(7). Your non-member revenue consistently exceeds the percentage allowed by law. Your non-member income in the tax year ended November 30, 20XX averaged % of total gross receipts, whereas Revenue Procedure 71-17 and Public Law 94-568 allow a maximum of %.

Because social clubs are primarily supported by their members' payments, their tax exemption has the practical effect of allowing the membership to join together to provide themselves with recreational or social facilities without further tax consequences, when the club's income is limited to membership receipts. This justification should not result in any tax advantage. By receiving such a large amount of nonmember income from the use of the facilities, the members do receive financial advantages.

The term "general public" as used in this procedure means persons other than members of a club, their dependents, or guests. "Total gross receipts" is defined as the receipts from normal and usual activities of the club including charges, admissions,



Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>ORG</b>		<b>Year/Period Ended</b>  November 30, 20XX

membership fees, dues and assessments.

To qualify for income tax exemption, a social club should not advertise its facilities for nonmember patronage since this would be prima facie evidence it was engaging in business. A social club should not engage in any type of business activity for profit which is designed to increase or which could result in an increase in net earnings inuring to the benefit of any shareholder or individual. Net earnings may inure to members in such forms as an increase in services offered by the club without a corresponding increase in dues or other fees paid for club support or as an increase in the club's assets which would be distributable to members upon the dissolution of the club.

Income Tax Regulation (ITR) section 1.501(c)(7)-1 states that if a Social Club makes its social and recreational facilities available to the general public it will not qualify for tax-exempt status. However, Revenue Procedure 71-17 1971-1 C.B. 683 as amended by Public Law 94-568 sets forth guidelines for determining the effect of gross receipts derived from use of a social club's facilities by the general public have on the club's exemption under section 501(c)(7) of the Code. The revenue procedure states that where a club makes its facilities available to the general public to a substantial degree, the club is not operated exclusively for pleasure, recreation, or other non-profitable purposes. Social Clubs may receive up to 35% of their total gross receipts, including investment income, from sources outside of their membership without jeopardizing their tax-exempt status. Within this 35% limit, no more than 15% of a club's gross receipts may be derived from nonmember use of the club's facilities and/or services. If these standards are exceeded, a Social Club will not qualify for exemption pursuant to IRC section 501(c)(7).

### **CONCLUSION**

The organization does not meet the requirements of 501(c)(7) because they received more than 15 percent of its income from non-members, the organization does not qualify for exemption under 501(c)(7). We propose a revocation of your exempt status under section 501(c)(7) effective December 1, 20XX. As a taxable entity, you are required to file Form 1120, U.S. Corporation Income Tax Return, for the periods open under statute which are the tax years ended November 30, 20XX, November 30, 20XX, and November 30, 20XX.