



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Number: 201428027
Release Date: 7/11/2014

Date: February 20, 2007

Contact Person:
Identification Number:
Contact Number:
Employer Identification Number:
Form Required To Be Filed:
Tax Years:
UIL: 501.07-05; 501.32-00

Dear

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(7). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at

Letter 4040 (CG) (11-2005)
Catalog Number 47635Z

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Lois G. Lerner
Director, Exempt Organizations
Rulings & Agreements

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: **December 27, 2006**

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

M = Name of State
N = Date
O = Date
P = Name of Organization
Q = Year
R = Year
S = Date
T = Name of City
U = Name of Swap Meet
V = Date
W = Date

UIL Index:

501.07-05

501.32-00

a = Dollar Amount
b = Dollar Amount
c = Dollar Amount
d = Dollar Amount
e = Dollar Amount
f = Dollar Amount
g = Dollar Amount
h = Dollar Amount
i = Dollar Amount
j = Dollar Amount
k = Dollar Amount
l = Dollar Amount
m = Dollar Amount
n = Dollar Amount
o = Dollar Amount

Dear

We have considered your application for recognition of exemption from Federal income tax under Internal Revenue Code section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code section 501(c)(7). The basis for our conclusion is set forth below.

ISSUE:

Does your organization qualify for tax exemption under Internal Revenue Code section 501(c)(7)?

FACTS:

You applied for exemption under Internal Revenue Code section 501(c)(7) as a social club. You incorporated under the non-profit laws of M on N. Your purpose as provided in your Articles of Incorporation is **"...to promote interest in antique automobiles; to collect and disseminate touring and other information valuable to antique automobile users; to promote the comfort, protection, convenience and interests and to protect the rights of antique automobile owners and users generally, and its members particularly; and to maintain a club house or meeting place for social and fraternal enjoyment."**

Your revised Bylaws, dated O, stated that any member in good standing with P may become a member of your organization by submitting an application sponsored by one of your members in good standing and by payment of the yearly dues of \$5.00 per family.

You indicated on Page 1 of the Form 1024 that you have filed Form 1120 for years Q through R. You previously applied for recognition of tax exemption under section 501(c)(3) of the Code. You indicated that the Service alluded to your lack of education purpose as the reason you did not qualify for recognition of tax exemption under section 501(c)(3) of the Code. During the application process, you did not follow through with the additional information requested by the Internal Revenue Service.

According to your description of activities, you are formed **"...to foster the [members'] love of automobiles and [provide] opportunities for member activities, including weekend tours..."** Your specific activities include conducting weekend and daily tours, supplying automobiles and drivers for regional and local July 4th and Veterans Day parades, social events, school education activities, and holding monthly membership meetings and get-togethers to discuss cars, restoration projects, upcoming tours, past tours, and other common interests. Monthly membership meetings are held at various free or rented locations. Members generally gather three times a week. About four times a year, the members participate in weekend trips across the state. In a reply dated S, you indicated that time spent in tours would approximate 52 percent. However, your tours include social activities as well as traveling to regional cities by antique automobile. Based on information from your newsletters, a substantial level of social activities does take place during your weekend and daily tours. Some of the social activities engaged in by your members during your traveling tours included visiting museums, enjoying ice cream socials and participating in shopping trips together.

With respect to parade activities, you indicated that parade organizers do not request your Club's presence at parade events - members volunteer their antique automobiles for local dignitaries. The parades are generally followed up with member get-togethers. While the events are somewhat civic in nature, you provided that they ultimately afford members another opportunity to gather to showcase their cars and discuss them with interested members and other car enthusiasts. **You consider the parades a civic duty and said that you spend about percent of organizational time in that manner. You also reported that percent of your Club's time is spent in social activities, with percent in public fundraisers and percent on Club business.** You mentioned that you are a regional chapter of P but that this is a voluntary choice you make each year, and you are not part of a Group Exemption.

Your support consists of income from your annual public T Swap Meet and Car Show, an annual grant from the City of T to advertise the T Swap Meet, investment income and member dues. Most of your members also work at the regional U Swap Meet as staff for which you receive several thousand dollars depending on the number of hours members work during that weekend event.

The majority of your funding is from your annual T Swap Meet and Car Show. For this annual fundraiser, you rent space at the county fair grounds for a long weekend and rent spaces to vendors for approximately \$ to \$. The vendors sell car parts and arts and craft items at the T Swap Meet. Concurrently, you also hold a car show for which you charge an entry fee of \$ from each participant, regardless if they are a member or not. Participants complete ballots to determine winners and you award trophies or plaques to owners of various classic cars; no cash prizes are involved. You pay thousands of dollars annually to advertise this event to the public. The cost of the advertising for the T Swap Meet is partially provided through a grant from the City of T Tourism Fund in an effort to generate additional tourism to the City and benefit the local economy. You purchase advertisements in various automobile trade magazines; in local and regional newspapers; on radio programs; on websites; and flyer mail-outs.

According to your correspondence dated S, your non-member income as a ratio of your total income is as follows:

Year Non-member Income/Total Income

19	%
20	%
20	%
20	%
20	%
20	%
20	%

According to your financial data, net income from your participation in swap meets as a percentage of your total income is as follows:

Year Estimated Net Profits from Swap Meets/Total Income:

	Income* (A)	Expenses** (B)	Column (A - B)	Total Income	%Net Profits/ Total Income
20	\$a	\$b	\$c	\$d	%
20	\$e	\$f	\$g	\$h	%
20	\$i	\$j	\$k	\$l	%

*Income amounts included funding from City of T grant and receipts from swap meets. (Grants from the City of T were included in swap meet income as the funds are used exclusively to advertise the T Swap Meet to the public.) **Expense amounts included advertising, rent, equipment and supplies and miscellaneous swap meet expenses. Obviously not all rent, equipment and supplies expenses related to the T Swap Meet but for purposes of obtaining a conservative estimate of the level of net profits generated at the annual swap meets, these expenses were included in full in the above computation.

Year Estimated Net Profits from Swap Meets & Expenses for Social Activities:

	<u>Net Profits from Swap Meets</u>	<u>Social Activities Expenses</u>
20	\$c	\$m
20	\$g	\$n
20	\$k	\$o

Based on your financial information, your net profits from the swap meets finance a significant portion, if not all, of the direct cost of the social and recreational expenses of your members.

LAW:

Internal Revenue Code section 501(c)(7) provides for the exemption from Federal income tax of clubs organized for pleasure, recreation, and other non-profitable purposes (which has been defined by the courts as meaning other purposes similar to pleasure and recreation), **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 shareholder.** To qualify as a tax-exempt social club under Section 501(c)(7), an organization not only must be a non-profit entity but must also meet both an organizational test and an operational test.

Section 1.501(c)(7)-1 (a) of the Income Tax Regulations provides that the exemption described in section 501(c)(7) applies only to clubs that are organized and operated **exclusively** for pleasure, recreation and other non-profitable purposes, but does not apply if any part of its net earnings inures to the benefit of any private shareholder. **In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments.**

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 non-profit purposes and is not exempt. 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 recreation purposes.

Public Law 94-568 states that substantially all of the social club's activities must be organized and operated for pleasure, recreation and other non-profitable purposes and amends the old requirement that social clubs must be organized and operated exclusively for such purposes.

The Committee Report of Public Law 94 - 568, Senate Report 94 - 1318, 2d Session, 1976-2 C.B. 597, 599 states that "The decision in each case as to whether substantially all of the organization's activities are related to its exempt purposes is to continue to be based on all the facts and circumstances. However, the facts and circumstances approach is to apply only if the club earns more than is permitted under the new guidelines. If the outside income is less than the guidelines permit, then the club's exempt status will not be lost on account of nonmember income. It is intended that these organizations be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of 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...This also means a club exempt from taxation described in sec. 501(c)(7) is to be permitted to receive up to 35 percent of its gross receipts from a combination of investment income and receipts from nonmembers so long as the latter do not represent more than 15 percent of total receipts."

The Senate Finance Committee set forth the following rationale for enacting section 512(a)(3) of the Code to extend the taxation of unrelated business income to organizations described under section 501(c)(7) of the Code in Senate Report. 91-552 (1969), 1969-3 C.B. 423, 469-70 as follows:

"Present law. -Under the present law the investment income of social clubs, fraternal beneficiary societies, and employees' beneficiary associations is exempt from income tax. General reasons for change.-Since the tax exemption for social clubs and other groups is designed to allow individuals to join together to provide recreational or social facilities or other benefits on a mutual basis, without tax consequences, the tax exemption operates properly only when the sources of income of the organization are limited to receipts from the membership. Under such circumstances, the individual is in substantially the same position as if he had spent his income on pleasure or recreation (or other benefits) without the intervening separate organization. However, where the organization receives income from sources outside the membership, such as income from investments..., upon which no tax is paid, the membership receives a benefit not contemplated by the exemption in that untaxed dollars can be used by the organization to provide pleasure or recreation (or other benefits) to its membership..."

Internal Revenue Code section 501(c)(4) exempts from Federal income tax those organizations

that are operated to promote social welfare, no part of which inures to the benefit of any private individual.

Income Tax Regulation 1.501(c)(4) - 1 exempts from Federal income tax those civic organizations that are operated to promote the common good and general welfare of the community. **Income Tax Regulation 1.501(c)(4) - 1(a)(2)(i)** elaborates that promotion of social welfare must be the organization's primary operation to promote in some way the common good and general welfare of the people of the community. **Income Tax Regulation 1.501(c)(4) - 1(a)(2)(ii)** provides that an organization is not operated exclusively for the promotion of social welfare if its primary activity is carrying on a business with the general public.

Revenue Ruling 60 - 324, 1960-2 C.B. 173 held that a social club did not qualify for exemption under Internal Revenue Code section 501(c)(7) because it made its facility available to the public on a regular, recurring basis. **The club's accounting firm concluded from its independent survey that if the club discontinued its involvement by outsiders, a substantial increase in annual member dues would be necessary.**

Revenue Ruling 69-220, 1969-1 C.B. 154 held that a social club that received a substantial portion of its income from the rental of property and used such income to defray operating expenses and to improve and expand its facilities was not exempt under IRC 501(c)(7).

Revenue Ruling 68-638, 1968-2 C.B. 220 held that a club formed to maintain a country club for the promotion and enjoyment of golf for its members, receives, as host of an annual golf tournament, substantial income from the public, and used the income for club operating expenses and improvements was not exempt under IRC 501(c)(7).

In **Pittsburgh Press Club vs. United States**, 579 F. 2d. 751 (3rd Cir. 1978), the Court viewed profits from both non-exempt and exempt activities to determine if there was sufficient non-member income to justify the revocation of the organization's exempt status. The Service contended that substantial income from the public meant that the organization was not organized nor operated exclusively for pleasure and recreation. The Court agreed and held that the amount of non-member income, which the Court determined to be between 11 - 17 percent, indicated that the organization was engaged in business with the general public and that revocation of their 501(c)(7) exemption was proper. This Court case also indicated that when non-member income exceeded the established parameters, the other relevant factors in determining exempt status of a social club include: the amount of net profits derived from non-member income, the purpose for which the club's facilities were made available to nonmember groups, and the frequency of use of the clubs facilities by nonmembers.

In **United States vs. Fort Worth Club of Fort Worth, Texas**, 345 F. 2d. 52 (1965), described an organization which operated a men's club in a 13-story downtown building, title to which was held by its wholly-owned subsidiary. Half of the space was occupied by the club and the other half was rented to tenants by the subsidiary which turned the net income over to the club. It held that the club was not exempt because it derived substantial and recurring profit from a business altogether unrelated to its activities as a social club.

APPLICATION OF LAW:

Social clubs are membership organizations primarily supported by funds paid by their members. The tax exemption of social clubs allows individuals to join together to provide themselves with recreational or social facilities on a mutual basis, without further tax consequences. This is based on the premise that the income sources of the organization are limited to receipts from the membership. Individual members are in substantially the same position as if they had spent their own income on pleasure or recreation without the intervening organization. The justification for tax exemption of a social club under section 501(c)(7) of the Code is based on the rationale that it should not result in great tax advantage to the members, rather than by any compelling public benefit conferred by social clubs. However, the profits you derived from the T Swap Meet and the U Swap Meets subsidize the cost of the social and recreational activities of your members and result in inurement within the meaning of section 501(c)(7) of the Code. The profits derived from your swap meets cover the majority of the expenses related to your social and recreational activities. As indicated in **Senate Report. 91-552 (1969), 1969-3 C.B. 423, 469-70**, tax exemption under section 501(c)(7) of the Code operates properly only when the sources of income of the organization are limited to receipts from the membership. **Where a club receives funding from the public, which is untaxed, to finance activities for the pleasure and recreation of its members, the members receive a benefit not contemplated by the tax exemption.**

Since more than percent of your income is derived from nonmember sources, **you do not meet the nonmember income limitations established in Public Law 94-568 for qualification under section 501(c)(7) of the Code.** More than percent of your gross receipts, including investment income, are from sources outside your membership. And within the -percent amount, more than percent of your gross receipts are derived from nonmember income. You also do not meet the relevant factors, as established in **Pittsburgh Press Club vs. United States, 579 F. 2d. 751 (3rd Cir. 1978)**, for determining exempt status for organizations exceeding the nonmember income limitation. The level of net profits from your swap meets is significant. In fact, the income derive from the public during your swap meets is sufficient to finance the majority of the cost of your social and recreational activities. The primary purpose for which you sponsor the T Swap Meet and participate in the U Swap Meet is to fundraise for your organization in order to keep membership fees low. In addition, your T Swap Meet, where a majority of your gross receipts are generated, is a regularly carried-on annual activity rather than a one-time event. Hence, due to the magnitude and regularity of your non-member income (at least percent or more each year), you do not meet the requirements for recognition of exemption under section 501(c)(7) of the Code as a social club.

Section 1.501(c)(7)-1 (a) of the Income Tax Regulations provides that exemption under section 501(c)(7) is extended to social clubs which are supported solely by membership dues, fees, and assessments. You are clearly not supported by membership dues, fees and assessments. In fact, more than 94 percent of your income is from non-members.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations state that advertising is PRIMA FACIE evidence of engaging in business and of not being operated exclusively for pleasure, recreational or social purposes. The majority of your funding is from your annual T Swap Meet and Car Show, a

fundraiser that you advertise and welcome to the public to attend. You advertise for the public to come and shop and you solicit vendors to rent a space at your T Swap Meet.

Like the organization described in Revenue Ruling 60-324, if you discontinue your involvement with outsiders, a substantial increase in annual membership dues would be necessary to sustain your operations.

You are very similar to the organization described in Revenue Ruling 68-638 in that your annual T Swap Meet produced substantial income from the public which is used to defray the social and recreational expenses of your members and therefore, you are not exempt under section 501(c)(7) of the Code.

Like Revenue Ruling 69-220, and the Court case United States vs. Fort Worth Club of Fort Worth, Texas, 345 F. 2d. 52 (1965), a substantial portion of your income is from renting stalls to vendors at your annual T Swap Meet fundraiser. The net profits from the T Swap Meet helps to defray the cost of social and recreational activities for your members, resulting in private inurement to your members which precludes tax exemption.

Your extensive social and recreational pursuits constitute a substantial part of your activities. You are therefore, not primarily operated for civic or social welfare purposes. **There is no indication that you make any organized effort to educate the public in the history of automobiles.** Although you talk about civic activities, only individual members volunteer to drive dignitaries in parades and that activity is insignificant in the context of your overall annual operations. **As you have acknowledged, aside from your fundraising activities, the remainder of your time is devoted to social and recreational activities for your members.** Therefore, you do not meet the requirements for tax exemption under section 501(c)(4) of the Code.

APPLICANT'S POSITION:

In your reply dated V, you pointed out that your net earnings are not distributed to any individual member. **"All funds are used to further the social and recreational activities of the Club...The Club does not own any facilities thus not making them available for a fee."** Furthermore, "The denial of exempt status seems to be represented by the tax case identified in your letter (United States v Fort Worth Club of Fort Worth, Texas). In reviewing the Club's application and subsequent information provided to your first request, it is hard to imagine that the lease of excess building space as identified in the case mentioned would follow the same guidelines as the rental of 10 x 10 feet squares of vacant land for two days to others."

In discussing your T Swap Meet and U Swap Meet fundraisers to garner funds for your Club, you stated in your correspondence dated V that "Each of these events produces funds for the activities of the Club. **No funds generated inure to any individual member of the Club.**" No funds are paid to individual members for their personal use. These swap meet events afford yet another opportunity for members to socialize with its own members as well as with other antique automobile club members across the State of M. In the same reply, you also stated: **"The Club's position is that the advertising is not for the purpose of the Club selling items. The Club**

only makes space available for others to conduct business." Furthermore, you provided in the same response that "The fundraisers are used to fund the social events of the Club and no member received any funds for their personal use." Concerning your Club's low dues, you replied that the minimal dues amounts reflect the members' desire to not restrict membership in the organization because of high membership fees. "Dues tend to restrict membership in social organizations like country clubs. The Club's minimum dues allow individuals entering the antique automobile circle the opportunity to join with little monetary cost. Each member, in addition to dues, brings the desire to foster antique automobiles to the monthly meetings which always include a following social activity."

Again in your reply date V, you further stated that "Certainly the T SWAP meet provides funds from nonmember sources. The remaining funds after the costs of operating the event are placed in the treasury of the Club and used to further the social and recreational purposes of the Club...The Club holds meetings and social events on a regular basis throughout the year. The Club's primary purpose is not to conduct SWAP meets and car shows, but to promote interest in the restoration of antique automobiles...All of the net proceeds of our limited fundraisers (only 2 annually) go directly into the Club's treasury to defray the costs of the social and recreational activities."

Then in your reply dated S, you indicated "Removing the SWAP Meet activities, the only remaining time is social and fellowship. As was stated before, these meets themselves afford the membership additional social activities as well as fundraising opportunities...The organization has generally operated the same since inception."

In your reply dated W, you stated that the Internal Revenue Service has "...identified the Income Tax Regulations Section 1.501(c)(7)-1(a) as additional sources of information on the status of the exemption. This regulation, while not law, reflects the Service's position that the majority of the funds received must come from members of the organization. The requirement that funds supporting the organization's activities come only from the membership would create an undue burden on the members and limit the opportunities for others to join the organization." Also: "...Many exempt organizations provide funding through the sale of materials and other activities. Just a few locally are the (), (Advertising of the annual Walk-a-thon), and various school organizations that sell items door to door. We know they are not qualified under Section 501(c)(7). But why can a truly non profit organization sell goods and their profits be construed as for their exempt purpose when our profits are not viewed the same manner. What these regulations appear to do is deny our exemption when our organization has been established only for the pleasure and recreation of our members. Internal Revenue Code Section 501(c)(7) does not limit our exemption because of the source of our funding."

SERVICE RESPONSE TO APPLICANT'S POSITION:

Unlike other sections of the Internal Revenue Code, tax exemption under section 501(c)(7) of the Code is not premised on any compelling public benefit conferred by the social organization, but rather that by allowing members to pool their funds for social and

recreational purposes results in minimal tax consequences. Therefore, a social club exempt under section 501(c)(7) can not be compared to other entities exemption under section 501(c)(3) of the Code which raise funds from the public to carry out its charitable purposes. According to **Senate Report. 91-552 (1969), 1969-3 C.B. 423, 469-70**, in the case of social club that is funded by membership fees, the individual club members is in substantially the same position as if he had spent his income on pleasure or recreation without the intervening separate organization. Tax exemption under section 501(c)(7) of the Code would not operate properly if non-member income was used to subsidize the social recreational expenses of the club members. Using untaxed non-member income for the social and recreational activities of members constitutes private inurement under section 501(c)(7) of the Code, which precludes tax exemption.

We assert that your nonmember income generated from your swap meets does result in inurement. Although the funds are not given to individual members for their personal use, the funds are used by your Club to finance the cost of the social and recreational activities of your members, resulting in private inurement. Perhaps the size of the facilities that you rent to vendors is smaller but you are similar to the organization described in **United States vs. Fort Worth Club of Fort Worth, Texas**, supra, in that the rental income received from your T Swap Meet is used to defray your social and recreational expenses. We further contend that Section 501(c)(7) of the Code does limit exemption based on your sources of funding. Additionally, the Income Tax Regulations and Public Law 94-568 are all part of the laws that govern tax exemption under section 501(c)(7) of the Code. In fact, Public Law 94-568 established clear parameters on the level of nonmember income permitted to be received by a social club exempt under section 501(c)(7) of the Code. The fact that you do not own a club facility and that your non-member income is generated from an annual fundraiser does not detract from the reality that more than 94 percent of your total annual gross receipts are derived from non-members. **Your non-member income far exceeds the limitations established in Public Law 94-568 for an organization exempt under section 501(c)(7) of the Code. Moreover, due to the magnitude, regularity and purpose of your non-member income, you do not meet the facts and circumstances test provided in Public Law 94-568 and the Court case Pittsburgh Press Club vs. United States, 579 F. 2d. 751 (3rd Cir. 1978) for qualification under section 501(c)(7).** One factor is the frequency of non-member use of an organization's facilities. An unusual event would be more favorable than non-member income arising from frequent non-member use. Also a high percentage in one year while other year's receipts were within permitted levels is more favorable than a consistent pattern of exceeding the limits by even small amounts. Your annual public fundraiser is not an unusual event and you make continuous and strenuous efforts to attract non-member participation. Your nonmember income exceeded the established guidelines on a consistent basis since your inception. A third factor is whether nonmember income generates net profits for the organization. Profits derived from nonmembers subsidize your organization's activities for members which results in inurement within the meaning of Internal Revenue Code section 501(c)(7).

Based on the administrative file, while there are social activities at your T Swap Meet, it is plainly evident that the primary purpose of the event is raise funds in order to keep membership fees artificially low. Your net income derived from your annual public fundraiser keeps member financial obligations to a minimal. Non-member receipts are of such a magnitude that they actually finance your operations throughout the year. You stated that you advertise the T Swap Meet to the public not

for purpose of your Club directly selling items to the public but rather for you to rent stalls to vendors to conduct business with the public. That may be the case. But in drawing the public and vendors to your T Swap Meet, you generate non-member income to finance your social and recreational activities.

CONCLUSION:

You do not meet the requirements for recognition of tax exemption under section 501(c)(7) of the Code. Your nonmember income far exceeds the limitations established in Public Law 94-568. Your continuous dependence on nonmember income to fund the social and recreational activities of your members constitutes private inurement which precludes tax exemption under section 501(c)(7) of the Code. You are also not operated primarily for civic and social welfare purposes. Your social and recreational activities are extensive. You are formed for social and recreational purposes. As you have confirmed, the majority of your time is devoted to social and recreational pursuits. You have not demonstrated that you have an established program to educate the public in the history of automobiles. Therefore, you do not qualify for tax exemption under section 501(c)(4) of the Code. Accordingly you are not furthering purposes within the meanings of either section 501(c)(4) or section 501(c)(7) of the Code.

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter.

We will consider your statement and decide if that information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. To be represented during the appeal process, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice Before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications.

Types of information that should be included in your appeal can be found on page 2 of Publication 892, under the heading "Regional Office Appeal". These items include:

1. The organization's name, address, and employer identification number;
2. A statement that the organization wants to appeal the determination;
3. The date and symbols on the determination letter;
4. A statement of facts supporting the organization's position in any contested factual issue;
5. A statement outlining the law or other authority the organization is relying on; and
6. A statement as to whether a hearing is desired.

The statement of facts (item 4) must be declared true under penalties of perjury. This may be done by adding to the appeal the following signed declaration:

“Under penalties of perjury, I declare that I have examined the statement of facts presented in this appeal and in any accompanying schedules and statements and, to the best of my knowledge and belief, they are true, correct, and complete.”

Your appeal will be considered incomplete without this statement.

If an organization's representative submits the appeal, a substitute declaration must be included stating that the representative prepared the appeal and accompanying documents; and whether the representative knows personally that the statements of facts contained in the appeal and accompanying documents are true and correct.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter to you. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to the applicable address:

Mail to:

Internal Revenue Service
EO Determinations Quality Assurance

Deliver to:

Internal Revenue Service
EO Determinations Quality Assurance

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

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

Sincerely,

Lois G. Lerner
Director, Exempt Organizations
Rulings & Agreements

Enclosures: Publication 892 & Senate Report 94 - 1318