



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
Internal Revenue Service  
N 14 W24200 Tower Place, Suite 202  
Waukesha, WI 53188

June 11, 2009

Number: 201448022  
Release Date: 11/28/2014

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

UIL: 501.07-00

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear

We have enclosed a copy of our report of examination explaining why we believe an adjustment 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 modifying or revoking 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,

Sunita Lough  
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>Name of Taxpayer</b>		<b>Year/Period Ended</b> December 31, 20XX December 31, 20XX December 31, 20XX

**Issues:**

1. Revocation of an organization granted exemption under IRC Section 501(c)(7).

**Facts:**

The \_\_\_\_\_ is a membership organization that conducts various cultural events for the purposes of promoting the \_\_\_\_\_ culture and heritage. The \_\_\_\_\_ was granted tax-exempt status under IRC Section 501(c)7, in June of 19XX.

The Internal Revenue Service conducted an examination of the Form 990 for the year ending December 31, 20XX. In examining the Form 990, the IRS determined that the organization received \_\_\_\_\_ % of its gross receipts from investments; the investment income received by the organization was derived from interest and dividends.

Based on the information analyzed by the Internal Revenue Service in examining the Form 990 filed for the year ending December 31, 20XX, an Information Document Request was sent to the \_\_\_\_\_ requesting financial information (for the years ending December 31, 20XX and 20XX) and detailed information of the organization's activities (For the years ending December 31, 20XX, 20XX and 20XX). Forms 990 filed for the years ending December 31, 20XX and 20XX provide that investment income, in each year, totaled more than \_\_\_\_\_ %.

A representative of the organization confirmed that the organization had received the Information Document Request, however the organization has not provided a response to the Information Document Request (The Information Document Request has gone unanswered for more than 90 days).

Revenue Procedure 1971-17 and Public Law 94-568 provide that Social Clubs, exempt under IRC Section 501(c)(7), can receive up to 35% of their gross receipts, including investment income, from sources outside their membership without losing their exempt status.

The investment income received by the \_\_\_\_\_ for the years ending December 31, 20XX, 20XX and 20XX, substantially exceeds the amount allowable for Social Clubs, exempt under IRC Section 501(c)(7).

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**Law:**

**IRC Section 501(c)7 states (in specifying attributes for exemption):**

“Clubs organized for pleasure, recreation, and other nonprofitable 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 shareholder.”

**Treasury Regulation Section 1.501(c)7-1**, further expounds upon Internal Revenue Code Section 501(c)(7), by indicating that a club engaging in business, is not operated exclusively for pleasure, recreation, or social purposes. An example given by the regulation to indicate the presence of a business operation, included the solicitation of public patronage by advertisement.

**Revenue Ruling 1966-149, 1966-1, C.B. 146**, provides that a Social Club is not exempt from Federal income tax, under section 501(c)(7) of the Code, where it regularly derives a substantial part of its income from nonmember sources such as dividends and interest.

**Public Law –PL 94-568 (October 20, 1976):**

This Public Law places a 35% limit on the amount of investment income that a Social Club exempt under IRC Section 501(c)(7) can receive, without jeopardizing its exempt status.

**Government’s Position:**

Public Law 94-568 places a 35% limit on the amount of investment income that a Social Club exempt under IRC Section 501(c)(7) can receive, without jeopardizing its exempt status.

The amount of investment income received by \_\_\_\_\_ in each of the years ending December 31, 20XX, 20XX and 20XX is more than \_\_\_\_\_ %; this percentage far exceeds the amount allowable under IRC Section 501(c)(7).

The \_\_\_\_\_ was given a chance to review and respond to the findings regarding their level of investment income; however no response was provided to the Internal Revenue Service by the \_\_\_\_\_.

It is thus the Internal Revenue Service’s position, that the \_\_\_\_\_ does not meet the requirements for exempt status.

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**Taxpayer's Position:**

The \_\_\_\_\_ has not provided a response.

**Conclusion:**

**All the facts have been considered and it's been determined that the has not met the requirements for exempt status under IRC Section 501(c)(7).**

**The \_\_\_\_\_ exempt status should therefore be revoked, effective January 1, 20XX, the date the material change in exempt status was noted.**

**The effect of this revocation is that the organization is required to file Forms 1120 with the Internal Revenue Service, for the years ending December 31, 20XX, onward.**