



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE
1100 Commerce, MC 4920 DAL
Dallas, TX 75242

**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

Number: **201612014**
Release Date: 3/18/2016

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Date: November 30, 2015

Person to Contact/ ID Number

UIL: 501.07-00

Contact Numbers:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear _____ :

In a determination letter dated July, 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 January 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 April 30, 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. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights.

TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit taxpayeradvocate.irs.gov or call 1-877-777-4778. If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service
Office of the Taxpayer Advocate

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,

Margaret Von Lienen
Director, EO Examinations

Internal Revenue Service
Tax Exempt and Government Entities Division
Exempt Organizations: Examinations
1100 Commerce Street, MS 4900 DAL
Dallas, TX 75242-1100

Department of the Treasury

Date: October 26, 2015

Taxpayer Identification Number:

Form:

Tax Period(s) Ended:

Person to Contact/ID Number:

Contact Telephone Number:

Fax Number:

Dear :

During our examination of the return(s) indicated above, we determined that your organization was not described in Internal Revenue Code section 501(c) for the tax period(s) listed above and therefore, it does not qualify for exemption from federal income tax. This letter is not a determination of your exempt status under section 501 for any period other than the tax period(s) listed above.

The attached Report of Examination, Form 886-A, *Explanation of Items*, summarizes the facts, the applicable law, and the Service's position regarding the examination of the tax period(s) listed above. You have agreed with our determination by signing Form 6018-A, *Consent to Proposed Action*, accepting our determination of non-exempt status for the period(s) stated above. You have filed the required income tax returns.

In the future, if you believe your organization qualifies for tax-exempt status and would like to establish its status, you may request a determination from the Internal Revenue Service by filing Form 1024, *Application for Recognition of Exemption Under Section 501(a)*, and paying the required user fee.

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 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:

Internal Revenue Service
Office of the Taxpayer Advocate

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,

Margaret Von Lienen
Director, EO Examinations

Enclosures:
Form 886-A

Form 886A	Department of the Treasury - Internal Revenue Service	
Explanation of Items		
Name of Taxpayer		Year/Period Ended 20XX 20XX

ISSUE

Does _____ continue to qualify for exemption under Internal Revenue Code § 501(c)(7) given that it receives more than 15% of its income from the general public on a recurring basis?

FACTS

_____ is open to the public the following day:

Sundays 9am – 1pm May thru September

During these times, nonmembers may participate in several of the Club's activities of the Trap Fields. Nonmembers may enter the grounds of the Club through an entry gate that is unlocked during these hours. In order to participate in these activities, they have only to identify themselves to the employee working the counter in the Clubhouse. The counter person then solicits the nonmembers to become a member and charges them the "league member" fee for participating in these activities. Therefore, the new members can participate in club shoots. League members do not have the same privileges as regular members. All members have access to the remaining property owned by the Club.

The _____ is organized and operating as an organization described in Internal Revenue Code § 501(c)(7) to provide social, recreational and other activities to its members. The benefits provided to the members include, but are not limited to, the following activities: Trap Shooting, hunter safety and Clubhouse social activities.

The specific and primary purpose of the _____, per its' Constitution, is "the formation of a membership of sportsmen interested in outdoor recreation, wildlife conservation, restoration and education."

Your organization reported the following sources and amounts of revenue on Forms 990 for periods ending December 31, 20XX and December 31, 20XX.

Year/Period Ended	% of gross receipts from nonmember use	% of gross receipts from investment income	Total % investment income / nonmember income
December 31, 20XX	%	%	%
December 31, 20XX	%	%	%

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		20XX
		20XX

While reviewing the general ledger, Income Statement, Minutes of meetings, your website, as well as other internal documents provided by your organization, such as cash register receipts and Counter Income/Expense Report, it has been noted that your organization is open to the general public on a regular basis, as stated previously. The nonmember income has been recorded in the following accounts within your General Ledger and Counter Income/Expense Report:

- Nonmember League Membership
- Nonmembers Trap Leagues
- Nonmember Calendar Sales
- Nonmember Bar Income
- Advertising Income

Based on conducting a two-year analysis of gross receipts, it has been noted that the organization received % and %, respectively, during tax years ending December 31, 20XX and December 31, 20XX. The gross receipts received by your organization are well over the 15% threshold permitted in Public Law 94-568.

<u>Member use of Facilities:</u>	<u>20XX</u>	<u>20XX</u>
Total Receipts	\$	\$
Less:		
General Membership Dues	\$	\$
Scrip Sales	\$	\$
Leagues Income Members	\$	\$
Raffles	\$	\$
Club House Rental	\$	\$
Memorial	\$	\$
Bar Income	\$	\$
Calendar Sales	\$	\$
<u>Total</u>	<u>\$</u>	<u>\$</u>

Adjusted gross receipts per Rev. Proc 71.17

<u>Nonmember use of Facilities:</u>	<u>20XX</u>	<u>20XX</u>
League Membership Dues	\$	\$
Leagues Income Non-members	\$	\$
Calendar Ads	\$	\$
Bar Income	\$	\$
Calendar Sales	\$	\$
<u>Total Nonmember Income</u>	<u>\$</u>	<u>\$</u>

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		20XX
		20XX

20XX

Nonmember use Test: =
(Limited to 15%)

Nonmember Income:

Nonmember use	\$
Interest	\$
<u>Total Nonmember & Investment Income</u>	<u>\$</u>

Nonmember Income test: = %
(Limited to 35%)

20XX

Nonmember use Test: = %
(Limited to 15%)

Nonmember Income:

Nonmember use	\$
Interest	\$
<u>Total Nonmember & Investment Income</u>	<u>\$</u>

Nonmember Income test: = %
(Limited to 35%)

LAW

Internal Revenue Code § 501(c)(7) exempts from Federal income tax: "Clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and not part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7) of the Income Tax Regulations provides that, in general, the exemption extends to social and recreation clubs supported solely by membership fees, dues and assessments. However, a club that engages in a business, such as making its social and recreational facilities open to the general public, is not organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a).

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other non-profitable purposes. Public Law 94-

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		20XX
		20XX

568 amended the "exclusive" provision to read "substantially" in order to allow an IRC § 501(c)(7) organization to receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership without losing its tax exempt status. The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) further states;

(a) Within the 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 means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from non-members, so long as the latter do not represent more than 15 percent of total receipts.

(b) Thus, a social club may receive investment income up to the full 35 percent of its gross receipts if no income is derived from non-members' use of club facilities.

(c) In addition, the Committee Report states that where a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facilities, that income is not to be included in the 35 percent formula.

Revenue Ruling 66-149 holds a social club as not exempt as an organization described in Internal Revenue Code § 501(c)(7) where it derives a substantial part of its income from non-member sources.

Revenue Procedure 71-17 sets forth the guidelines for determining the effect of gross receipts derived from the general public's use of a social club's facilities on exemption under Internal Revenue Code § 501(c)(7). Where nonmember income from the usage exceeds the standard as outlined in this Revenue procedure, the conclusion reached is that there is a non-exempt purpose and operating in this manner jeopardizes the organization's exempt status.

TAXPAYER'S POSITION

Historically, _____ did operate within the rules of Internal Revenue Code Section 501(c)(7) as a social club. In order to raise money for operations and for programs to promote conservation within the community the organization began a calendar sale. Calendars were sold by members to nonmembers, resulting in nonmember income in excess of 15% of gross receipts and nonmember and investment income in excess of 35% of gross receipts. _____, did not intentionally disregard the 501(c)(7) rules.

While the organization would have liked the opportunity to correct operations to comply with the rules, they accept the revocation of their exempt status.

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		20XX
		20XX

GOVERNMENT'S POSITION

Your organization has exceeded the 15% non-member threshold on a recurring basis during tax years ending December 31, 20XX and December 31, 20XX and therefore revocation of your organization's exempt status is warranted.

CONCLUSION

The IRC Section 501(c) (7) tax-exempt status of _____ should be revoked since the nonmember income received by the Club exceeded 15% of the Club's total gross receipts for the years under examination. Further, its main activity of selling calendars to the general public and use of their facilities to the general public reflecting evidence that the Club is engaged in a business and is not being "operated exclusively for pleasure, recreation, or social purposes."

_____ no longer meets the requirements to qualify as exempt from federal income tax under IRC section 501(a) as described in section 501(c)(7). Therefore, your exempt status under 501(c) (7) of the Internal Revenue Code will be revoked effective January 1, 20XX.

As a taxable entity, the organization is required to file Form 1120, U.S. Corporation Income Tax Return for the periods open under statute. Under 6501(g), these periods include the years ending December 31, 20XX and subsequent tax years.

Additionally, the organization is reminded of the provisions of IRC 277 concerning membership organizations, which are not exempt organizations. IRC § 277(a) stipulates in the case of a membership organization which is not exempt from taxation, deductions for the taxable year attributable to furnishing services, goods or other items of value to members shall be allowed only to the extent of income derived from members.