



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

TE/GE: EO Examinations

1100 Commerce Street, MC 4920DAL

Dallas, TX 75242

**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

May 25, 2016

Release Number: **201635007**

Release Date: 8/26/2016

UIL Code: 501.07-00

Taxpayer Identification Number:

Form:

990

Tax periods ended:

December 31, 20XX

December 31, 20XX

Person to Contact:

Identification Number:

Contact Telephone Number:

CERTIFIED MAIL

Dear _____ :

This is a final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(7) for the tax periods above.

Our adverse determination as to your exempt status was made for the following reason(s):

Based on your activities and financial records, you do not qualify for exemption from Federal income tax under section 501(c)(7) of the Code since: 1) You are engaged in business with the general public by regularly providing your facilities and services to the public for use upon payment of established fees. These fees are over the 15% limit as provided in Revenue Procedure 71-17, as amended by Public Law 94-568; and 2) the income from these sources is inuring to the benefit of your members because it is used for the maintenance and improvement of your facilities.

You are required to file income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for tax periods ended December 31, 20XX and December 31, 20XX. We have secured Forms 1120 for tax periods ended December 31, 20XX and December 31, 20XX.

Processing of income tax returns and assessments of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination under the declaratory judgment provisions of section 7428 of the Code, a petition to the United States Tax Court, the United States Claims Court, or the district court of the United States for the District of Columbia must be filed before the 91st Day after the date this determination was mailed to you. Please contact the clerk of the appropriate court for rules regarding filing petitions for declaratory judgments by referring to the enclosed Publication 892. You may write to these courts at the following addresses:

United States Tax Court
400 Second Street, NW
Washington, D.C. 20217

United States Court of Federal Claims
717 Madison Place, NW
Washington, D.C. 20005

United States District Court for the District of Columbia
333 Constitution Avenue, NW
Washington, D.C. 20001

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

Sincerely,

Margaret Von Lienen
Director, EO Examinations

Enclosure:
Publication 892



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
Exempt Organizations Examinations

Date:
03/09/2016

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:
Dec. 31, 20XX and Dec. 31, 20XX
Person to Contact/ID Number:

Contact Numbers:
Telephone:
Fax:
Manager's Name/ID Number:

Manager's Contact Number:

Response due date:

Certified Mail – Return Receipt Requested

Dear _____ :

Why you are receiving this letter

We propose to revoke your status as an organization described in section 501(c)(7) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

What you need to do if you agree

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(7).

If we don't hear from you

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

Effect of revocation status

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

What you need to do if you disagree with the proposed revocation

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You also

may file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

Contacting the Taxpayer Advocate Office is a taxpayer right

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't 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

For additional information

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,

Paul A. Marmolejo
Acting Director, EO Examinations

Enclosures:
Report of Examination
Form 6018
Publication 892
Publication 3498

**Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities Division
Exempt Organizations Examinations**

Date: May 25, 2016

Taxpayer ID number:

Form:

Tax periods ended:
December 31, 20XX
December 31, 20XX

Person to contact/ID number:

Contact numbers:
Telephone:
Fax:

Dear _____ :

On December 18, 2015, Congress enacted the Protecting Americans from Tax Hikes Act of 2015 (PATH Act of 2015), P.L. 114-113. Section 406 of the PATH Act extends declaratory judgment rights under section 7428 of the Internal Revenue Code from 501(c)(3) organizations to all 501(c) organizations. These rights apply to adverse determinations of tax-exempt status, including revocations and disqualifications of tax-exempt status.

This section of the PATH Act of 2015 applies to all revocations and disqualifications issued on or after September 18, 2015. We issued you a final revocation or disqualification letter during this time period. We are now reissuing a revocation letter because you are entitled to file a declaratory judgment action with respect to the loss of your tax-exempt status. Your reissued letter is attached. The basis for the loss of your exempt status has not changed.

If you have any questions, you can call me 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,

Reviewer

Attachment
90-day Final Adverse Determination Letter

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended Dec 31, 20XX Dec 31, 20XX

ISSUE:

Whether (“ ”) met the requirements of any tax-exempt status under Section 501(c) other than Sections 501(c)(3), (c)(9) or (c)(17) during the tax years cited above.

LAW:

IRC, 2015-CODE-VOL, SEC. 501. EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC.

501(c)(7) 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.

Social clubs are permitted to receive a certain amount of income from the general public and investments because P.L. 94-568 substituted "substantially all" for "exclusively " in IRC 501(c)(7). The limitations imposed by this change are: no more than 15% of revenue from non-members and no more than 35 % of revenue from investments.

FACTS:

An organization may “self-declare” themselves to be tax-exempt under the Sections of 501(c) of the Internal Revenue Code except for those cited above.

Examination of for the subject years disclosed that the organization was operated as a for-profit business. was held to operate as a commercial business because it was operated as a for-profit business and advertised events to which the general public was invited. There were no effective methods to segregate guest revenue from member revenue. The admission of the general public does not provide an exempt purpose for a social club nor does it provide a valid purpose for exemption under any other section of 501(c) for which a self-declarer may claim tax exemption.

did not have adequate internal controls in place to ensure that only members and their own personal guests attended events in their building, nor did they have controls in use which reliably segregated member from non-member revenues. Finally, the amount of non-member income exceeded on its gross receipts from nonmember use of club facilities and/or services.

Finally, the corporate documents specified provisions which lack detail and do not require the development and maintenance of detailed specification of exempt purpose, written policies for internal control, annual disclosure of any conflicts of interest. No objection is taken to the Articles and By-Laws although these documents have been amended since the years under examination. These amendments will be sent to the Administrative Files Unit in Cincinnati. No objection was

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended Dec 31, 20XX Dec 31, 20XX

taken to the corporate documents as they contain no impermissible provisions. In general, steps have been taken to increase the participation of the board of directors in organization matters and to document the adoption by management of new control provisions which new management has adopted (subsequent to the years under examination).

TAXPAYER POSITION:

has agreed to re-state their Forms 990 and 990-T on Form 1120 for the two years under exam. These tax returns were then completed and sent to this office by Agent received these 1120's on August 6, 20XX. Agent's review of the forms 1120 Corporate tax returns show that the org correctly converted the 990 series information returns to the 1120 for XX and XX. Submission of these tax returns effectively conveys their agreement with Agent's findings in the examination. Form 6018-A was not signed as it was not presented to the organization by the Agent for signature. The POA indicates that he will request that complete and file form 1024, although it is understood not to be required.

GOVERNMENT POSITION:

It is the government position that the POA has expressed his agreement with Agent's conclusion that the org did not meet the requirement for exception under any part of Section 501(c) other than (3), (9) or (17). Exemption under Section 501(c)(3), 501(c)(9) or 501(c)(17) requires the approval of an application filed on form 1023 or 1024. As the organization does not meet the requirements of any eligible section of 501(c), then is disqualified (not "revoked") as a Social Club under Section 501(c)(7). It is not required that file form 1024 if they wish to re-declare themselves to be a social club under Section 501(c)(7).

For the years that were disqualified from tax exemption (FYE Dec 31, 20XX and 20XX), must file as a taxable corporation on Forms 1120 – which has been done. This is to further state that the examination did not cover the year ended Dec 31, 20XX and the organization may self-declare for that year if it believes that the requirements are met for the exemption. The Government expresses no opinion as to whether qualifies for exemption as of December 31, 20XX.

CONCLUSION:

The organization has not shown that it meets the requirements of 501(c)(7) or any other part of Section 501(c) for which exemption does not require a formal determination of qualification based on the filing of Form 1023 or 1024.

As failed to meet the requirements of any non-excluded part of Section 501(c), it is therefore required to report its income on Corporate tax form 1120 for 20XX and 20XX during which years it failed to meet such requirements for exemption.