



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

**DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Attn: Mandatory Review, MC 4920 DAL
1100 Commerce St.
Dallas, TX 75242**

Date: June 16, 2016

Number: 201640020
Release Date: 9/30/2016

Employer Identification Number:

Person to Contact/ID Number:

Contact Numbers:

UIL: 501.07-00

Dear :

This is a final adverse determination regarding your exempt status under section 501(c)(7) of the Internal Revenue Code (the Code). Our favorable determination letter to you dated October 17, 20XX is hereby revoked and you are no longer exempt under section 501(a) of the Code effective November 15, 20XX.

The revocation of 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 president.

You are required to file Form 1120 U. S. Corporation Income Tax Return for years ended June 30, 20XX and June 30, 20XX with the Ogden Service Center. In addition, for future periods, you are required to file Form 1120 with the appropriate service center indicated in the instructions for the return.

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 at the beginning of this letter.

Thank you for your cooperation.

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:
03/14/2016
Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

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: June 16, 2016

Taxpayer ID number:

Form:

Tax periods ended:

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 886A	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
Explanation of Items		
Name of Taxpayer		Year/Period Ended JUNE 30, 20XX

ISSUE

A so-called _____, operated for profit, furnished _____ and _____ to its patrons. The _____ was organized as a _____ to comply with state _____. Membership cards were used but there was no formal application for membership or a system of approval, no initiation fees or dues, no board of directors or meeting of the members.

Does this _____ that qualifies as a _____ under _____ state law for the purpose of obtaining a state _____, qualify under Internal Revenue Code Section 501(c)(7) as a tax exempt social club?

FACTS

_____ filed Articles of Incorporation with the _____ Secretary of State's office on January 28, 20XX. _____ Articles of Incorporation were Amended on April 4, 20XX with the Secretary of State of _____ changing the name of the Corporation to _____. In addition, a Registration of Fictitious Name was filed with the Secretary of State of _____ on April 4, 20XX, registering "_____ " for _____.

Form 1024 "Application for Recognition of Exemption Under Section 501(a)" was filed with the Internal Revenue Service on February 6, 20XX.

_____ was granted exemption from Federal Income Tax under section 501(c)(7) of the Internal Revenue Code by Letter 948 dated October 17, 20XX, with the effective date of exemption of November 15, 20XX.

The privileges of _____ members consist in the right to have access to the _____ and to partake of its _____

No meetings of the members of _____ are held _____
 _____ members have no voice in the selection of members and members have no voting rights
 _____ members have no control of the operation of the _____
 _____ members have no share in the profits _____
 _____ membership is open to the general public and their families, without specific qualification
 _____ allows entrance to its establishment without verification as to membership _____
 _____ does not charge a membership fee, there are no membership dues or assessments and
 membership cards are issued for life.

The selection of _____ members is entirely in the hands of the one stockholder, anyone who walks through the door is granted membership _____
 _____ was organized as a private club to comply with state liquor laws.
 _____ is a one-person enterprise owned by the stockholder

LAW, ARGUMENT AND RATIONALE

Internal Revenue Code Section 501(a) Exemption from taxation

An organization described in subsection (c) or (d) or section 401(a) shall be exempt from taxation under this subtitle unless such exemption is denied under section 502 or 503

Internal Revenue Code Section 501(c)(7) 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 inures to the benefit of any private shareholder

Club Ramon, Inc., Appellee v. United States of America, Appellant 1962-2 C.B. 356; 1962 IRB LEXIS 791 A so-called "dinner club," operated for profit, furnished food and entertainment to its patrons. The club was organized as a

Form 886A	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
Explanation of Items		
Name of Taxpayer		Year/Period Ended JUNE 30, 20XX

private club to comply with state liquor laws. Membership cards were used but there was no formal application for membership or a system of approval, no initiation fees or dues, no board of directors or meeting of the members.

The court held that in view of all the circumstances the club was so clearly a public place, within the meaning of section 1700 (e) of the 1939 Code, that it was subject to the cabaret tax and a directed verdict for the United States should have been granted in the District Court.

The certificate of incorporation, of *Club Ramon, Inc.* (a one-man enterprise owned by Raymond O. Mattee) states that the purpose of the corporation is to operate "a private dinner and supper club for the service of food and beverages." The by-laws of the corporation provide that the club shall be operated as a private club for the use of its members and their guests and that the Board of Directors shall prescribe the requirements for membership and issue appropriate identification to the members. No such regulations, however, have been passed and no attempt has been made to organize a private club in the ordinary meaning of that term. The selection of members has been entirely in the hands of Mattee and the evidence of membership is a membership card issued by Mattee bearing the member's name. The privileges of members consist in the right to have access to the Club and to partake of its entertainment for a price but no meetings of the members are held and the members have no voice in the selection of members, no control of the operation of the Club, and no share in the profits

In view of all these circumstances we conclude that the Club Ramon is so clearly a public place within the meaning of the Federal Statute that a verdict for the United States should have been directed. The pretense set up in the charter and in the by-laws of the corporation that the organization is a private club has no foundation in fact and is not now urged in support of the judgment of the District Court. Hence, the question is whether a restaurant which is operated by its owner for profit and for this purpose is open to such members of the general public and their families, without specific qualification, as the proprietor may deem it safe and prudent to admit to a place where violations of the state law are carried on, must properly be described as a public place within the meaning of the statute. We think that the answer must be in the affirmative when, as in this case, the sale of the privileges of the place was the lifeblood of the business and a large section of the general public was served. Actually the restrictions involved in the card-carrying practice were no more severe than those imposed by other public places of entertainment from which, for one purpose or another, certain classes of the general public are customarily excluded.

What we hold here is that the facts in this case establish beyond reasonable dispute that, the Club Ramon, Inc., in its organization and operation, is no more private than the ordinary discriminating restaurant and that it is, therefore, liable for the taxes imposed. The judgment of the District Court is reversed with direction to dismiss the complaint

CONCLUSION

The Club Ramon, Inc., court case stated above, and the facts of the . are also similar, in both instances:

- The privileges of members consist in the right to have access to and to partake of its entertainment for a price
- no meetings of the members are held
- members have no voice in the selection of members
- members have no control of the operation of
- members have no share in the profits
- membership is open to the general public and their families, without specific qualification
- The selection of members is entirely in the hands of the one stockholder
- The was organized as a private club to comply with state liquor laws.
- The a one-person enterprise owned by the stockholder
- The enterprise is similar to the business organization commonly known as a which is defined in Webster's New Collegiate Dictionary as

Form 886A	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
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The conclusion reached in the Club Ramon, Inc., court case is that the club is a public establishment and not a private club for Federal Tax Laws. Therefore, given that carries the same or similar facts as this court case, it can be concluded that in its organization and operation, is no more private than the ordinary discriminating and that it, therefore, does not qualify for exemption from Federal Income Tax and the 501(c)(7) classification should be revoked effective November 15, 20XX, the effective date of exemption.

In addition, is liable for Filing Federal Income Tax Form 1120 for all taxable periods ending after November 15, 20XX.