



Department of the Treasury
Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Date:
June 6, 2018
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

Number: **201835007**
Release Date: 8/31/2018

**UIL Code: 501.07-00, 501.07-01,
501.07-05**

Dear :

This letter is our final determination that you don't qualify for tax-exempt status under Section 501(c)(7) of the Internal Revenue Code (the Code). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file federal income tax returns for the tax years listed at the top of this letter using the required form (also listed at the top of this letter) within 30 days of this letter unless you request an extension of time to file.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection (as required under Section 6110 of the Code) 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, follow the instructions in the Notice 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can contact the person listed at the top of this letter. If you have questions about your federal income tax status and responsibilities, call our customer service number at 1-800-829-1040 (TTY 1-800-829-4933 for deaf or hard of hearing) or customer service for businesses at 1-800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:

Notice 437

Redacted Letter 4034, *Proposed Adverse Determination under IRC Section 501(a) Other Than 501(c)(3)*

Redacted Letter 4040, *Final Adverse Determination under IRC Section 501(a) Other Than 501(c)(3) - No Protest*



Department of the Treasury
Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Date:
March 14, 2018
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

R = State
S = Formation date
T = Name of sport
U = State High School Athletic Association
V = National Association
X = County 1 Public Schools
Y = County 2 Public Schools

UIL:

501.07-00
501.07-01
501.07-05

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Section 501(a) of the Internal Revenue Code (the Code). Based on the information provided, we determined that you don't qualify for exemption under Section 501(c)(7) of the Code. This letter explains the basis for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under section 501(c)(7) of the Code? No, for the reasons stated below.

Facts

You were incorporated in the state of R on S. Your Articles of Incorporation state that you were formed to provide opportunities to qualify as T officials; provide T officiating; instruct members in current rules interpretations, techniques and mechanics of officiating; and have in readiness a group of officials for T competitions.

Your Bylaws provide for a single class of dues-paying members, consisting of T officials, who elect your directors. They state that you service T competition at the secondary school level. They also state that you shall be affiliated with U and V, both supervisory bodies for high school athletics. You have _____ members whose annual membership dues are divided equally between you and U, of which they are required to be members.

You list your activities and the percentage of time devoted to each activity as follows:

- 70 percent: Provide qualified/certified officials to county and private high schools and middle schools for their organized competitions. All officials assigned are members of your organization.
- 15 percent: Evaluate and train officials.

- 10 percent: Organize gatherings of members to go over rules and techniques, to inform of additional training opportunities, to prepare for annual testing, and to interact with other officials in a social setting.
- 5 percent: Educate and train high school student managers to perform as supporting officials.

You have agreements with public school districts in X and Y, and individual private schools to provide officials for T games. You assign members to officiate at games, collect the fees for this service and distribute the proceeds to the member officials, less fees to you and the state supervising body. In your most recent fiscal year, you received \$ in membership dues and \$ in officiating income. You paid out \$ in compensation to your members for officiating services, \$ in other compensation, and \$ for other expenses.

Law

Section 501(c)(7) of the Code provides for the exemption from federal income tax of clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all 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.

Section 1.501(c)(7)-1(a) of the Regulations provides that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(b) of the Regulations provides that a club which engages in business...is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Public Law 94-568, 1976 2 C.B. 596, provides that a social club may receive up to 35 percent of its gross receipts, including investment income from sources outside its membership without losing exemption. 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 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 nonmembers so long as the latter do not represent more than 15 percent of the total receipts. However, the 15 and 35 percent allowances apply only to gross receipts derived from activities furthering its exempt purposes (traditional business activities). Nontraditional business activities do not further the exempt purposes of a social club even if conducted solely on a membership basis. Social clubs are not permitted to receive income from nontraditional business within the 15 or 35 percent allowances. Social clubs do not qualify for exemption if the nontraditional business activities are not incidental, trivial or nonrecurrent.

Rev. Rul. 69-527, 1969-2 C.B. 125, A social club formed to assist its members in their business endeavors through study and discussion of problems and other activities at weekly luncheon meetings did not qualify for exemption under section 501(c)(7) of the Code because it was not organized and operated exclusively to serve the pleasure, recreation, or other similar social purposes of its members.

Application of law

You are not exempt under section 501(c)(7) because you are not organized and operated for pleasure, recreation, and other non-profitable purposes. Your primary activity is to contract with schools to provide officials for T competitions, collect the fees for this service and distribute the proceeds to member officials. You are thereby engaging in a nontraditional business activity. As with the organization described in Rev. Rul. 69-527, any social or recreational activities of your members are merely incidental to these activities. Social clubs do not qualify for exemption if the nontraditional business activities are not incidental, trivial or nonrecurrent. Your nontraditional business activity is not strictly incidental to your club activities and they are not negligible or nonrecurring. It is your primary activity, neither incidental nor negligible. Therefore, because you are engaged in business, per Section 1.501(c)(7)-1(b) of the Regulations, you are not operated exclusively for pleasure, recreation and other nonprofitable purposes.

Even your nonbusiness activities are not carried on for pleasure, recreation, or similar non-profitable purposes, but to assist your members in their own business endeavors. like the organization described in Rev. Rul. 69-527,

Finally, you do not qualify for exemption because your monetary distributions exclusively for the benefit of members constitute an inurement of your earnings prohibited under Section 501(c)(7) and Reg. Sec.1.501(c)(7)-1(a),.

Conclusion

Based on the information provided, we conclude that you are not organized for pleasure, recreation or other nonprofitable purposes as described in Section 501(c)(7) of the Code. By providing employment for your members, you are engaging in a business that is beyond the scope of exemption under Section 501(c)(7) of the Code. Accordingly, you do not qualify for recognition of exemption from federal income tax under Section 501(c)(7) of the Internal Revenue Code.

If you don't agree

You have a right to file a protest if you don't agree with our proposed adverse determination. To do so, you must send a statement to us within 30 days of the date of this letter. The statement must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A copy of this letter highlighting the findings you disagree with
- An explanation of why you disagree, including any supporting documents
- The law or authority, if any, you are relying on
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization, or your authorized representative
- One of the following declarations:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I examined this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts and such facts are true, correct, and complete.

For authorized representatives:

Under penalties of perjury, I declare that I prepared this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, *Power of Attorney and Declaration of Representative*, with us if he or she hasn't already done so. You can find more information about representation in Publication 947, *Practice Before the IRS and Power of Attorney*.

We'll review your protest statement and decide if you provided a basis for us to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't provided a basis for reconsideration, we'll forward your case to the Office of Appeals and notify you. You can find more information about the role of the Appeals Office in Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court at a later date because the law requires that you use the IRS administrative process first (Section 7428(b)(2) of the Code).

Where to send your protest

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

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Room 7-008
P.O. Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Room 7-008
Cincinnati, OH 45202

You can also fax your statement and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that he or she received it.

If you agree

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

You can find all forms and publications mentioned in this letter on our website at www.irs.gov/formspubs. If you have questions, you can contact the person listed at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosure:
Publication 892