



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
1100 Commerce Street, MC 4920
Dallas, TX 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Release Number: 201844012
Release Date: 11/2/2018
UIL Code: 501.03-00

Date: JUL 19 2018

Taxpayer Identification Number:

Tax Period Ended:

Person to Contact:

Identification Number:

Contact Information:

Telephone:

Fax:

CERTIFIED MAIL – Return Receipt Requested

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 period(s) above.

Your exempt status is hereby-revoked effective March 1, 20 .

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

You have not demonstrated that you are operated exclusively for exempt purposes within the meaning of Internal Revenue Code § 501(c)(7) and Treasury Regulations 1.501(c)(7)-1. Exempt clubs are organized for pleasure, recreation, and other non-profitable purposes. The exemption extends to social and recreation clubs that are supported solely by membership fees, dues, and assessments. Your activities are not in furtherance or operated exclusively for pleasure, recreation or other similar non-profit purposes and are not exempt under section 501(a).

Organizations that are not exempt under section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms, and information please visit www.irs.gov.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment by referring to the enclosed Publication 892. You may write to the courts at the following addresses:

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

U.S. Court of Federal Claims
717 Madison Place, N.W.
Washington, D.C. 20439

U.S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, D.C. 20001

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

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect you taxpayer rights. We 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 our assistance, which is always free, we 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 yours,



Maria D. Hooke
Director, EO Examinations

Enclosure: Publication 892



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

Date:
February 2, 2018
Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact:

Employee ID:

Telephone:

Fax:

Manager's Contact Information:

Employee ID:

Telephone:

Response Due Date:

CERTIFIED MAIL – Return Receipt Requested

Dear _____ ;

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(7).

If you agree

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(7) for the periods above.

If you disagree

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable

law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

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 adverse determination letter.

Contacting the Taxpayer Advocate Office is a taxpayer right

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 www.taxpayeradvocate.irs.gov or call 877-777-4778.

For additional information

You can get any of the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,

Maria Hooke
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018

Form 886-A	EXPLANATION OF ITEMS	Schedule or Exhibit No.
Name of Taxpayer		Year Ended 20XX

ISSUE: Are the requirements to maintain 501(c)(7) status met under the 15% /35% rule per Treasury Regulation 71-17 for ().

FACTS: (), was incorporated as a not-for-profit organization in August 19XX, and received 501(c)(7) status from the IRS at the same time. They were formed for the purpose of being a social club for residents of and the surrounding County area. Their primary activity is to maintain a golf course, and provide a venue for socializing.

Due to declining membership, looked to enhance revenues from existing facilities to remain financially viable; i.e. the general public can play on the golf course the same as members. Also, the operation of house was contracted out to a third-party manager. The manager does not segregate member revenues from those of non-members, so all revenue is categorized as non-member. was aware services to the general public were UBI, and their accounting firm prepared the related forms 990-T (along with the 990s).

A section 501(c)(7) organization is permitted to receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. Of the 35 percent, not more than 15 percent of the gross receipts may be derived from the use of , facilities or services by the general public (non-members).

was offered an opportunity to present facts and circumstances that were unique to their situation that the Service could take into account when determining if revocation of exemption should apply. The organization did not present any.

Percentages of non-member revenues to total revenues:

Fiscal year ended:

20XX: 0%

20XX: 0%

20XX: 0%

20XX: 0%

LAW: Internal Revenue Code Section 501(c)(7) applies to social and recreational clubs which are supported solely by membership fees, dues, and assessments. Substantially all their activities are for pleasure, recreation, and other non-profitable purposes. PL 94-568 provides that clubs may receive up to 35% of their gross receipts from sources outside their membership. Within the 35% limitation, no more than 15% of gross receipts may be derived from nonmember use of club facilities and/or services.

Form 886-A	EXPLANATION OF ITEMS	Schedule or Exhibit No.
Name of Taxpayer		Year Ended 20XX

If a club exceeds the 15/35% test, then it will maintain its exempt status only if it can show through facts and circumstances that "substantially all" of its activities are for "pleasure, recreation and other non-profitable purposes."

Applying the facts and circumstances tests for record keeping requirements was discussed in the Court of Appeals case Pittsburgh Press Club vs USA, 536 F. 2d 572, (1976). This case set forth factors to determine net profits from nonmember's use of facilities and services that allow directly related costs. Fixed costs that would be paid by in the absence of nonmember income, such as depreciation, utilities, and maintenance, should not be charged against nonmember income to determine net profits from nonmembers.

TAXPAYERS POSITION: _____, through its preparer, is aware of the allowable thresholds of nonmember revenue; and is aware _____ is outside those boundaries, and realizes they are subject to revocation of their tax-exempt status. Management's position is that _____ likely could not survive without the nonmember revenue, and thus have indicated they will agree to revocation of their exempt status under IRC 501(c)(7) with the fiscal year beginning March 1, 20XX.

CONCLUSION: _____ no longer meets the requirements for exemption under IRC section 501(c)(7) and should be revoked as of the fiscal year beginning March 1, 20XX. A 'converted' 1120 return for the fiscal year ended 2/28/20XX will be prepared by the accounting firm and sent to the IRS for processing. Going forward beginning with the fiscal year ended 2/28/20XX, the organization will file corporate 1120 tax returns.