



Department of the Treasury  
Internal Revenue Service  
Appeals Office  
2525 Capitol Street, MS 201  
Fresno, CA 93721

Date: **August 7, 2018**

Person to contact:  
Name:  
Employee ID number:  
Telephone:  
Fax:

Number: **201845030**  
Release Date: 11/9/2018

Employer ID number:

Uniform issue list (UIL):  
**501.07-00**  
**501.07-05**  
**501.07-06**

### Certified Mail

Dear

This is a final adverse 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 Section 501(c)(7) of the Code.

We made the adverse determination for the following reasons:

You exceed the allowable levels of non-member income and are not organized and operated exclusively for the pleasure and recreation of your members.

You're required to file federal income tax returns on Forms 1120, U.S. Corporation Income Tax Return. Mail your form to the appropriate Internal Revenue Service Center per the form's instructions. You can get forms and instructions by visiting our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676).

We'll make this letter and the proposed adverse determination letter available for public inspection under Section 6110 of the Code after deleting certain identifying information. We provided to you, in a separate mailing, Notice 437, Notice of Intention to Disclose. Please review the Notice 437 and the documents attached that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437.

If you decide to contest this determination, you can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. Contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment. You can write to the courts at the following addresses:

<b>United States Tax Court</b>	<b>US Court of Federal Claims</b>	<b>US District Court for the District of Columbia</b>
400 Second Street, NW	717 Madison Place, NW	333 Constitution Avenue, NW
Washington, DC 20217	Washington, DC 20005	Washington, DC 20001

Note: We will not delay processing income tax returns and assessing any taxes due even if you file a petition for declaratory judgment under Section 7428 of the Code.

Please refer to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status, for more information about the Appeals process.

You also have the right to contact the Taxpayer Advocate Service (TAS). 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](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

TAS assistance is not a substitute for established IRS procedures, such as the formal appeals process. TAS 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.

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

Sincerely,

Appeals Team Manager

Enclosures:  
Publication 892





**Department of the Treasury  
Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

Date: **November 9, 2017**

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

**Legend:**

X = date

Y = state

**UIL:**

501.07-00

501.07-05

501.07-06

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 became an unincorporated association on X in the state of Y. Your 1024 application states your purpose is to serve as a group of trained officials public school districts can contact to receive officiating services for selected scholastic football contests in southeastern Y. Your members are then assigned to officiate those games by your volunteer officers. The school district pays fees to you, which you then pay to the member-official.

Your Bylaws state your purpose is to provide a professional, contracted service for officiating football contests in Y and neighboring states. Members will place an emphasis on the following areas:

- Enhancing the ethical standards of officiating football at all levels of play
- Guiding and enhancing sportsmanship on and off the field of play by all participants
- Conveying a greater understanding of the profession of officiating football among the players, coaches, the general public, and our fellow officials
- Promoting personal and organizational growth through on-going training and mentoring of the Z's membership

Your Bylaws also spell out membership obligations, indicating membership is open to all dues paying officials registered in good standing with the Y officials association. Members must attend and participate at least % of your training meetings and show up for game assignments. Training meetings occur at least times annually prior to and times during the current football season.



Your financial data indicates most funds you receive are from officiating fees – receipts represent payments for scholastic football officiating services performed.

### **Law**

Section 501(c)(7) of the Code provides for the exemption from federal income tax of 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.

Treasury Regulation Section 1.501(c)(7)-1(a) states the exemption provided by Section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

Treasury Regulation Section 1.501(c)(7)-1(b) states, in part, that a club which engages in business is not organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a) of the Code.

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.

Rev. Rul. 58-589, 1958-2 CB 266, discussed the various criteria for recognition of exemption under Section 501(c)(7) of the Code. In order to establish that a club is organized and operated for pleasure, recreation, and other non-profitable purposes, "there must be an established membership of individuals, personal contacts, and fellowship. A commingling of the members must play a material part in the life of the organization."

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.

Rev. Rul. 69-635 1, 1969-2 CB 126, holds that an automobile club whose principal activity is rendering automobile services to its members but has no significant social activities, does not qualify for exemption under Section 501(c)(7). The rendition of automobile services was not in the nature of pleasure and recreation within the meaning of Section 501(c)(7) and commingling of members did not play a material part in the activities of the organization.

### **Application of law**

You are not described in Section 501(c)(7) of the Code nor Treas. Reg. Sections 1.501(c)(7)-1(a) and 1.501(c)(7)-1(b). A club that is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but rather engages in business, does not qualify under Section 501(c)(7). You do not have organized social activities but instead act as a clearinghouse for officials to secure work for local schools.

Social clubs exempt under Section 501(c)(7) of the Code have limitations on the amount of non-member income they may receive. Nearly all your revenue is from schools paying fees for officiating services, rather



than from your member-officials. This more than exceeds the 35% limitation from sources outside your membership and the 15% limitation for nonmember use of a social club's facilities or services indicated in Public Law 94-568. This also disqualifies you from exemption under Section 501(c)(7).

Per Revenue Ruling 58-589, there must be an established membership of individuals, personal contacts, and fellowship including a commingling of members within a social club to receive exemption. While you have an established membership, you have not indicated any form of social commingling or fellowship among members. The only gathering is required training, and members are not required to attend each training session. This does not suffice as regular recreational comingling or fellowship among members.

Per Revenue Rulings 69-527 and 69-635 a club formed to assist its members in their business endeavors or whose principal activity is rendering services to its members but has no significant social activities did not qualify for exemption under section 501(c)(7) of the Code. Both organizations were essentially providing services to members rather than engaging in social activities and the comingling of members. Your sole activity is assisting local officials in gaining employment in coordinating games for them to officiate and receiving fees for those services. Your activities serve to facilitate the personal interests of each member instead of social and recreational club activities.

### **Conclusion**

You do not qualify for exemption under Section 501(c)(7) of the Code. You exceed the allowable levels of non-member income and are not organized and operated exclusively for the pleasure and recreation of your members. Accordingly, you cannot be granted exemption under Section 501(c)(7).

### **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](http://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