



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

Release Number: **201848017**
Release Date: 11/30/2018
UIL Code : 501. 07-00

Date:
September 7, 2018
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

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:
May 23, 2018
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = state
C = date
d = number
e = number

UIL:
501.07-00

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 B on C. Your bylaws state your purposes are:

- (1) to institute and maintain a method of collecting, recording and exchanging business information for and between its members;
- (2) to encourage local and foreign trade expansion for the benefit of its members;
- (3) to provide for the display, sale, or publicity of the goods, property, or services handled or represented by its members;
- (4) to create and encourage cooperative business methods so as to better or increase the efficiency and service of the business by its members;
- (5) to develop and carry on such activities as shall be found best to promote the welfare of its members and effect the purposes for which the organization is formed;
- (6) to encourage business and professional development within the community as a whole.

You achieve these goals by having weekly meetings for members to exchange information. The purpose of these meetings is to help members make decisions and take advantage of opportunities within the local business landscape. You devote d% of your time to the aforementioned activities. You devote e% of your time to social events for your members and prospective members. These events include an annual golf tournament, summer barbeque, and a holiday dinner.

Your income comes from membership dues and fees charged for the golf outing, which is open to guests of members. Gross receipts from non-members are insubstantial.

Your website states that membership totals more than 120 local business executives of various professions and that you were formed for the express purpose of promoting business amongst your members. Your membership consists of sole proprietorships, partnerships, corporations and associations with outstanding business and professional reputation. Each represents a different business, trade occupation or profession with overlap due to some business providing similar services.

Members keep their fellow members informed of conditions in the community that may affect their operations, opportunities and challenges. Each week leads are given and information exchanges to help members make decisions and take advantage of opportunities in the local business landscape. Members are given online access to your document library, bulletin archive, photo galleries and member directory

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.

Rev. Rul. 55-716, 1955-2 C.B. 263, holds that an organization formed for the purpose of furnishing television antenna service to its members is not entitled to exemption from federal income tax under Section 501(c)(7) of the Code. The term "club," as used within Section 501(c)(7), contemplates the commingling of members, one with the other, in fellowship. Personal contacts and fellowship must play a material part in the life of an organization for it to come within the meaning of the term "club."

Rev. Rul. 58-589, 1958-2 C.B. 266, sets forth the criteria or tests for determining whether an organization qualifies for exemption from tax under Section 501(c)(7) of the Code. In making this determination, all facts pertaining to the organization's form, method of operation, and activities should be considered. The organization must establish that (1) it is a "club" organized and operated exclusively for pleasure, recreation, or other non-profitable purposes and (2) no part of its net earnings inures to the benefit of any private shareholder or individual. To be deemed a "club," 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. 69-635 states 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) of the Code. The principal activity of this organization is the rendering of automobile services to its members. Most of the services offered are of a type generally available to motorists on a commercial basis. The rendition of such services is not in the nature of pleasure or recreation within the meaning of the statute.

Rev. Rul. 70-32, 1970-1 C.B. 132, holds that a flying club providing economical flying facilities for its members but having no organized social and recreation program does not qualify for exemption under section 501(c)(7) of the Code.

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). A club that is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes does not qualify under Section 501(c)(7). You do not have organized social activities but instead operate to engage members in networking to increase their business opportunities. Further, you are not organized as a club but as an association of local businesses.

Similar to the organizations described in Revenue Rulings 55-716 and 69-635, your activities consist of providing various services for your members. These activities do not further social or recreational purposes. The purpose of your weekly meetings is to improve the businesses of your members. In these rulings, and in Rev. Rul. 70-32, a lack of commingling amongst members for social purposes showed that the organizations were not operated for pleasure, recreation, and other non-profitable purposes. An insubstantial amount of your time is devoted to social activities.

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. You have weekly meetings for members but the purpose is not for social activities and comingling but rather the exchange of information to encourage local and foreign trade expansion for their benefit. As indicated within the ruling a commingling of the members must play a material part in the life of the organization. You have indicated 10% or less of your activities are for social events for members

Conclusion

Based on the information provided, we conclude that you are not organized for pleasure, recreation or other non-profitable purposes and there is no commingling of your members. Accordingly, you do not qualify for recognition of exemption under Section 501(c)(7) of the 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