



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
1100 Commerce Street
MC 4920DAL
Dallas, TX 75242

Date: April 16, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Number: **202226012**

Release Date: 7/1/2022

UIL: 501.07-00

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear _____ :

Why we are sending you this letter

This is a final determination explaining why your organization doesn't qualify as an organization described in Internal Revenue Code (IRC) Section 501(c)(7) for the tax periods above.

In the future, if you believe your organization qualifies for tax-exempt status and would like a determination letter from the Internal Revenue Service, you can request a determination by filing Form 1024, Application for Recognition of Exemption Under Section 501(a), or Form 1024-A, Application for Recognition of Exemption Under Section 501(c)(4) of the Internal Revenue Code, (as applicable) and paying the required user fee.

Our adverse determination as to your exempt status was made for the following reasons: You have not established that you are operated substantially all for an exempt purpose within the meaning of IRC Section 501(c)(7). It is the government's position that you fail to meet the operational test due to the following:

- Receiving more than an insubstantial part of your gross receipts from outside your membership.
- Allowing the general public access to your facilities on a regular and recurring basis.

Organizations that are not exempt under IRC 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.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of IRC Section 7428 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.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. You may write to the courts at the following addresses:

United States Tax Court 400 Second Street, NW Washington, DC 20217	U.S. Court of Federal Claims 717 Madison Place, NW Washington, DC 20439	U.S. District Court for the District of Columbia 333 Constitution Ave., N.W. Washington, DC 20001
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Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under IRC Section 7428.

Information about the IRS Taxpayer Advocate Service

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. However, you may be eligible for free help from the Taxpayer Advocate Service (TAS) if you can't resolve your tax problem with the IRS, or you believe an IRS procedure just isn't working as it should. TAS is an independent organization within the IRS that helps taxpayers and protects taxpayer rights. Contact your local Taxpayer Advocate Office at:

Internal Revenue Service
Taxpayer Advocate Office

Telephone:

Fax:

Or call TAS at 877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to taxpayeradvocate.irs.gov. Do not send your federal court pleading to the TAS address listed above. Use the applicable federal court address provided earlier in the letter. Contacting TAS does not extend the time to file an action for declaratory judgment.

Where you can find more information

Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

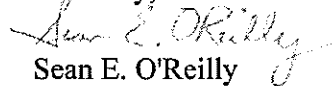
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

Keep the original letter for your records.

Sincerely,



Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Publication 1
Publication 594
Publication 892

cc:



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

Date:
November 17, 2020
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:
ID number:
Telephone:
Fax:
Address:

Manager's contact information:

Name:
ID number:
Telephone:
Response due date:

Dear: _____ :

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that your organization doesn't qualify as an organization described in Internal Revenue Code (IRC) Section 501(c)(7).

This letter is not a determination of your tax-exempt status under IRC Section 501 for any period other than the tax periods above.

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.

In the future, if you believe your organization qualifies for tax-exempt status and would like a status determination letter from the IRS, you can request a determination by filing Form 1024, Application for Recognition of Exemption Under Section 501(a), and paying the required user fee.

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,



Sean E. O'Reilly
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018
Publication 892 & 3498

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (<i>last 4 digits</i>)	Year/Period ended

ISSUE(S):

Whether the _____ is an organization described in Internal Revenue Code (IRC) Section 501(c)(7), when consistently gross receipts from the use of club facilities and services by the public exceeds the 15 percent limitation provided for such organizations.

FACTS:

_____ was incorporated in the State of _____ in _____ of 19 _____. _____ was unable to provide the articles of incorporation. However, from the _____ Secretary of State website the organizations name, date of incorporation, address and officers' names were verified.

_____ has not received a determination ruling from the Internal Revenue Service to be recognized as a social club exempt from federal income tax. _____ has identified itself as a 501(c)(7) social club and has filed Forms 990 as such.

The Form 990 returns filed by _____ for the past several years (20 ____ to 20 ____) describe their mission/purpose as follows:

“Provide social and recreational activities for members and guests”.

The purpose of _____ as stated in the bylaws is:

- (a) The promotion and extension of charitable, civic, and social pursuits.
- (b) To uphold and perpetuate the highest standards in the community.
- (c) The creation and perpetuation of true friendship, to dedicate a portion of our time and energy to unselfish service to our fellow citizens and to emphasize the humanitarian virtues in our daily lives.
- (d) To cooperate and participate in all important enterprises formulated for the improvement and common welfare of the _____ # _____ and the _____ of _____.

Article III of the bylaw's states:

“Any person who is a member in good standing of the _____ # _____ of _____ is automatically a member of this _____”.

The members of _____ are those of the local _____ of _____ chapter. _____ does not charge or collect any fees from its members.

_____ owns a facility located at _____ in _____. The facility is used for social and recreational use by the _____ # _____ (_____ of _____) and the public. There is a sign above the entrance of the facility stating, “open to the public” welcoming non-members into the facility.

The facility has two banquet halls which are available for rent year-round. The banquet halls vary in size and are rented for personal gatherings such as birthday parties and bridal/baby showers. Also, the _____ # _____ rents the facility to host weekly bingo games.

Name of taxpayer

Tax Identification Number (last 4 digits)

Year/Period ended

Aside from the rental activity the facility has a full bar and kitchen. The bar is accessible to all of age individuals who visits the facility.

also holds an annual golf tournament fundraiser and solicits sponsors such as " " as a fundraising activity.

allocated its unrelated business income/ non-member income from the rental activities and bar sales. The bar sales allocated to non-members ranged from % to % of net income in 20 -20 . The rental income from non-members were contemporaneously identified and classified using the rental agreements signed, as reviewed during the examination of the 20 books and records. The chart below lists the UBI per the Form(s) 990 & 990-T filed by .

UBI from non-members	20	20	20
Rent	\$	\$	
Bar Sales	\$	\$	\$
Gross Income	\$	\$	\$
Non-member use per 990/990-T	%	%	%

In addition to the non-member income identified by , the examination revealed received additional non-member income. The chart below summarizes all income received in tax years 20 , 20 , and 20 .

	20		20		20	
	Member	Non-Member	Member	Non-Member	Member	Non-Member
Golf Tournament/Member Function Income	\$		\$		\$	
Investment Income		\$		\$		\$
Facility Rentals	\$	\$	\$	\$	\$	\$
Fundraising/Golf Tournament Sponsorships	\$		\$		\$	
Gaming/Sale of Gift Cards						
Bar/Gross Inventory Sales		\$		\$		\$
Rental Income from Carmel Council		\$		\$		\$
Sum	\$	\$	\$	\$	\$	\$
Percent of Total	%	%	%	%	%	%

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (<i>last 4 digits</i>)	Year/Period ended

APPLICABLE LAW:

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

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other nonprofitable purposes. Public Law 94-568 amended the "exclusive" provision to read "substantially" in order to allow an IRC § 501(c)(7) organization to receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) further states;

- a) Within the 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 non-members, so long as the latter do not represent more than 15 percent of total receipts.
- b) Thus, a social club may receive investment income up to the full 35 percent of its gross receipts if no income is derived from non-members' use of club facilities.
- c) In addition, the Committee Report states that where a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facilities, that income is not to be included in the 35 percent formula.

The Committee Reports for Public Law 94-568 state that it is not "intended that these organizations should be permitted to receive, within the 15 or 35 percent allowances, income from the active conduct of businesses not traditionally carried on by these organizations." This language means that Congress intended that exempt social clubs should not be permitted to receive income from activities not conducted in furtherance of their exempt purposes. Therefore, a club that engages in nontraditional business activity can jeopardize its exempt status even when its gross receipts are within the permissible limits.

Treasury Regulation §1.501(c)(7)-1(a) further provides that 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 using club facilities or in connection with club activities. A social club that opens its facilities to the public is deemed to be not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption. See Reg. §1.501(c)(7)-1(b).

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items		Schedule number or exhibit
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Revenue Ruling 66-149, 1966-1 C.B. 146 provides that a social club is not exempt from Federal income tax as an organization described in section 501(c)(7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments which it owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for the club.

Revenue Ruling 58-589, 1958-2 C.B. 266 (1958) In making a determination whether an organization comes within the provisions of section 501(c)(7) of the Code, all facts pertaining to its form of organization, method of operation and activities should be considered. An organization must establish (1) that it is a club both organized and operated exclusively for pleasure, recreation and other nonprofitable purposes and (2) that no part of its net earnings inures to the benefit of any private shareholder or individual. To meet the first requirement, there must be an established membership of individuals, personal contracts and fellowship. A commingling of the members must play a material part in the life of the organization.

Revenue Procedure 71-17, 1971 WL 26186, 1971-1 C.B. 683 sets forth guidelines for determining the effect gross receipts derived from use of a social club's facilities by the general public have on the club's exemption from federal income tax under section 501(c)(7) of the Code. The club must maintain books and records of each such use and the amount derived therefrom.

Section 4.04 of Rev. Proc. 71-17 states that the club will be precluded from using the minimum gross receipts standard and audit assumptions if adequate records are not kept. Reg. 1.6001-1(c) of the Regulations provides that every exempt organization must keep such permanent books of account or records as are sufficient to show specifically the items of gross income, receipts and disbursements. The burden is on the club to maintain adequate records, and the failure to maintain records of nonmember use could result in the club losing its exemption, because it could not distinguish between receipt of member and nonmember income.

GOVERNMENT'S POSITION:

The facts show that organized and identified itself as a social club exempt from Federal income tax under section 501(c)(7) of the Code.

Section 501(c)(7) social clubs, can receive up to 35% of its gross receipts, including investment income, from sources outside the membership without jeopardizing the organization's exempt status. Within the 35%, not more than 15% of gross receipts should be derived from the use of facilities or services by the general public (nonmembers).

The Unrelated Business Income (UBI) identified by on the 990/990-T returns from 20 -20 exceeds the limitation of non-member income that is permissible from the use of social club facilities and services by the general public. has identified and reported non-member income over percent in 20 , 20 and 20 , as shown in the chart above.

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
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In addition to the non-member income identified by _____, the examination determined non-member income was understated. The income received from renting the facility to the _____ is considered non-member income along with the gross inventory/bar sales.

The _____ as an entity is not considered a member of a 501(c)(7) organization. Per Revenue Ruling 58-589, In deciding whether an organization comes within the provisions of section 501(c)(7), there must be an established membership of individuals, personal contracts and fellowship.

Also, _____ did not track and record member vs. non-member income as required by Revenue Procedure 71-17 therefore, it is presumed all the inventory/bar sales were made to the general public and is considered non-member income.

The rental income received from the _____ and the gross bar sales increased the non-member income to over _____ % each year 20____ -20____.

The IRS has determined that _____ non-member income grossly exceeds 15% in the 20____, 20____, and 20____ tax years. The non-member receipts were earned throughout the year, there was no single or unusual event that caused the club to exceed the 15% threshold.

Based on the application of the law to the facts and circumstances presented herein, it is the Government's position that _____ does not qualify for exemption as a social club described in section 501(c)(7) of the Code.

TAXPAYER'S POSITION:

_____ agrees with the IRS position regarding the disqualification of the organization's self-declared tax-exempt status.

CONCLUSION:

For the reasons stated above, the IRS has determined _____ does not meet the requirements for tax exemption under IRC Section 501(c)(7).

The IRS proposes to disqualify _____ self-declared tax-exempt status under IRC section 501(c)(7) for the year ending December 31, 20____ effective January 1, 20____.

Should this position be upheld, Form(s) 1120, *U.S. Corporation Income Tax*, should be filed for tax period ending December 31, 20____.

Please refer to the attached 30-day letter and IRS publications for the options available to the organization including appeal rights.

You have the right to file a protest if you disagree with this determination. To protest, you must submit a statement of your position and fully explain your reasoning within 30 days from the date of this letter. Details of filing a protest can be found in the enclosed publications.

If you agree with this conclusion, please sign and return the enclosed Form 6018.