



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

Number: 202226016
Release Date: 7/1/2022

Date:
04/04/2022
Employer ID number:

Form you must file:

Tax years:

Person to contact:
Name:
ID number:
Telephone:

UIL: 501.07-03

Dear :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(7). 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 the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 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 call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:

Redacted Letter 4034
Redacted Letter 4038



Department of the Treasury
 Internal Revenue Service
 PO Box 2508
 Cincinnati, OH 45201

Date: January 25, 2022

Employer ID number:

Person to contact:

Name:
 ID number:
 Telephone:
 Fax:

Legend:

- B – state
- C = date 1
- D = year
- E = individual 1
- F = year 2
- G = individual 2
- h dollars = amount
- J = business 1
- K = date 2
- L = business 2

UIL:

501.07-03

Dear _____ :

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

Issues

Do you qualify for exemption under IRC Section 501(c)(7)? No, for the reasons stated below.

Facts

You were incorporated in the state of B on C. Your Articles of Incorporation indicate your purpose is to provide social and community benefit. You have a provision stating you do not contemplate pecuniary gain or profit, incidental or otherwise. You have indicated that on dissolution a majority of your funds will be transferred to L.

You received _____ acres of land in D from E. From D through F descendants of G met _____ year; once for a _____ and once to _____. You then sell the _____ to pay for taxes, insurance and maintenance on the property. Family members are permitted to bring guests when you are making _____ ; you also rent the property to friends of family. You have stated there are no qualifications for membership – you are just descendants of G who meet annually to make _____ .

In F you signed a gas lease with J. That same year you received a one-time payment from J for h dollars. In K you began receiving royalty payments from J. To handle future payments you decided to form L, an LLC; and while you would retain the real estate you would deed the oil and gas rights to L who would then pay to lease your property.

Your activities will remain the same and you will continue to make _____ . Your income will be from the sale of _____ and the annual lease payment from L.

Law

IRC Section 501(c)(7) provides for exemption for 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(b) states a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized, and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under IRC Section 501(a). An incidental sale of property will not deprive a club of its exemption.

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.

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 IRC Section 501(c)(7) if it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments. In this instance, the club's funds were invested primarily for the purpose of producing income through dividends, interest, or capital appreciation. It is evident that 1) such income is regularly derived from nonmember sources, 2) that the income is received in fulfillment of and pursuant of the profit motive, and 3) that the income from investments is substantial in relation to total income.

Revenue Ruling 69-220, 1969-1 C.B. 154, held that a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses and to improve and expand its facilities is not exempt under IRC 501(c)(7).

Revenue Ruling 74-30 states that in order for a club to meet the requirements for exemption under IRC Section 501(c)(7), there must be an established membership of individuals, personal contacts, and fellowship. Furthermore, a commingling of members must play a material part in the activities of the organization.

Application of law

IRC Section 501(c)(7) provides for exemption for clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes. Section 1.501(c)(7)-1(b) of the regulations states a club which engages in business is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes. One of your only activities is the production and sale of _____ , and your other activities involve the leasing of your property for income. While you meet for some social

activities more than a substantial amount of your activities are directed at non-recreational purposes. Therefore, you do not meet the qualifications under Section 501(c)(7).

Additionally, to qualify for exemption under IRC Section 501(c)(7) you must bear a membership that comesling, exhibits personal contact and fellowship. (See Revenue Ruling 74-30) You have indicated there are no membership qualifications – you must only be part of a particular family. You have also indicated zero membership income. And while you do meet this is only a year, one of these times for what amounts to a business purpose of producing . Organizations lacking a true membership, personal contact and comingling are not exempt under Section 501(c)(7).

You have two primary sources of income; the sale of and a gas lease, both of which are outside your membership. This income is regularly occurring, from sales of product, and is a substantial portion of your total income. Revenue Ruling 66-149 provides that a social club is not exempt from federal income tax under IRC Section 501(c)(7) if it regularly derives a substantial part of its income from nonmember sources. (See also Revenue Ruling 66-220) However, when an organization exceeds the income limits described in Public Law 94-568, facts and circumstances are considered. As more than a substantial amount of your activities are directed towards business activities you do not qualify for exemption under Section 501(c)(7).

Conclusion

You do not meet the requirements for exemption under IRC Section 501(c)(7). You receive the majority of your income from nonmember sources on a recurring basis. By receiving royalties, you are engaging in a regular trade or business and derive a significant profit from the activity. As a result, you do not operate substantially for pleasure, recreation, or other non-profitable purposes qualify under Section 501(c)(7).

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.

If you don't agree

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

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

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

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, 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 they haven'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 gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

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

Where to send your protest

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Mail Stop 6403
PO Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Mail Stop 6403
Cincinnati, OH 45202

You can also fax your protest 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 they received it.

You can get 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 listed at the top of this letter.

Contacting the Taxpayer Advocate Service

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 if 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.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements