



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

Number: 202230010  
Release Date: 7/29/2022

Date: May 12, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

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 organized and operated exclusively 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:

1. Receiving more than an insubstantial part of your gross receipts from outside your membership.
2. Allowing the general public access to your facilities on a regular and recurring basis.
3. Lack of socialization among your members.

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](http://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

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

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](http://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.

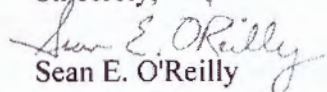
Find tax forms or publications by visiting [www.irs.gov/forms](http://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676).

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



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

Date:  
November 10, 2020  
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:  
ID number:  
Telephone:  
Fax:  
Address:

**CERTIFIED MAIL – Return Receipt Requested**

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.

**Letter 3618 (Rev. 8-2019)**  
Catalog Number 34809F

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](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

**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](http://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,

*Peter Jensen*

for Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Form 4621-A

Form 886-A

Form 6018

Publication 892

Publication 3498

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

**ISSUES:**

1. Whether \_\_\_\_\_ is organized as an organization exempt under Internal Revenue Code Section 501(c)(7).
2. Whether \_\_\_\_\_ is operating as an organization exempt under Internal Revenue Code Section 501(c)(7).

**FACTS:**

Background

\_\_\_\_\_ was incorporated with the State of \_\_\_\_\_ on \_\_\_\_\_ as a non-profit corporation. Per article IV of the \_\_\_\_\_ articles of incorporation, its purpose is:

“...owning, leasing, operating, maintaining and managing a building or buildings, property and equipment, for the purpose of promoting intellectual, cultural, high moral standards and virtue conducive to the welfare and best interests of the community, and particularly the members of the \_\_\_\_\_”

Membership in the \_\_\_\_\_ is limited to members in good standing of the \_\_\_\_\_ of the \_\_\_\_\_. The \_\_\_\_\_ does not assess or collect membership dues and no membership dues are paid over by the \_\_\_\_\_. Additionally, \_\_\_\_\_ of the \_\_\_\_\_ director positions of the \_\_\_\_\_ board are filled by the \_\_\_\_\_ trustees.

Article XV of the \_\_\_\_\_ Bylaws, that were amended \_\_\_\_\_, provides that upon the sale or other disposition of the real property, the \_\_\_\_\_ shall dissolve if it does not purchase another real property within \_\_\_\_\_ years of such sale or other disposition. In the event of dissolution, the \_\_\_\_\_ must transfer its remaining assets to the \_\_\_\_\_; the exception being for any real property, which must be sold prior to dissolution and the after-tax cash proceeds transferred to the \_\_\_\_\_.

The \_\_\_\_\_ holds title to real property located at \_\_\_\_\_. On the property there is a parking lot and a building that contains a main hall, commercial kitchen, front room, back room with a bar, and storage areas. The \_\_\_\_\_ name and logo is visible at the entryway and on a banner advertising weekly bingo games that are open to the general public. However, there is no “members only” signage, no guest log, or restricted access to the building such as a member key card requirement.

No Form 1024, *Application for Recognition of Exemption Under Section 501(a)*, was filed by the \_\_\_\_\_ with the Internal Revenue Service (“the Service”). Per the Service’s records, the \_\_\_\_\_ began filing Form \_\_\_\_\_, *Return of Organization Exempt from Income Tax*, starting with the tax period ending \_\_\_\_\_ and selected Section 501(c)(7) of the Internal Revenue Code as their tax-exempt status.

Form <b>886-A</b> (May 2017)	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule number or exhibit
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**Forms**

The \_\_\_\_\_ reported the following income and expenses on the Forms \_\_\_\_\_, *Return of Organization Exempt from Income Tax*, for the tax periods ending \_\_\_\_\_ and \_\_\_\_\_.

	<b>Form _____, Part VIII, Statement of Revenue</b>		
2	Program Service Revenue: Use Fees ( _____ )	\$	\$
2	Program Service Revenue: Use Fees (Private Events)	\$	\$
3	Investment Income	\$	\$
10a	Gross sales of inventory	\$	\$
10b	Less: cost of goods sold	\$	\$ ( _____ )
11	Miscellaneous Revenue: Event related donations	\$	\$ -
11	Miscellaneous Revenue: Other donations	\$	\$
11	Miscellaneous Revenue: Other donations	\$	\$ -
11	Miscellaneous Revenue: Maintenance Fund	\$	\$
11	Miscellaneous Revenue: to maintenance fund from savings	\$	\$ -
11	Miscellaneous Revenue: transfer into EMF	\$ -	\$
12	Total revenue	\$	\$
	<b>Form _____, Part IX, Statement of Functional Expenses</b>		
7	Other salaries and wages	\$	\$
10	Payroll taxes	\$	\$
13	Office expenses	\$	\$
16	Occupancy	\$	\$
24	Other expenses: other	\$	\$
24	Other expenses: Late Fee/Bank Fees	\$	\$
24	Other expenses: out of savings to maintenance fund	\$	\$ -
24	Other expenses: Insurance	\$	\$
25	Total functional expenses	\$	\$

Per the Service's records, the \_\_\_\_\_ has not a filed a Form \_\_\_\_\_, to report any unrelated business income.

**Rental Contracts**

In addition to the rental fee received from the \_\_\_\_\_, the \_\_\_\_\_ charges a rental fee for private events held in the building. Per the provided hall rental rate sheet, the \_\_\_\_\_ charges different rates for members and nonmembers. The \_\_\_\_\_ waives any rental fee for events that are educational, alcohol-free, \_\_\_\_\_, and open to the community. Security and cleaning services are available for an additional fee.

The \_\_\_\_\_ contract with the \_\_\_\_\_, signed on \_\_\_\_\_, is for an initial term of five years;

Form <b>886-A</b> (May 2017)	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule number or exhibit
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automatically renewing for an additional \_\_\_\_\_ terms of \_\_\_\_\_ years each. An annual fee of \$ \_\_\_\_\_ is to be paid in equal monthly installments of \$ \_\_\_\_\_. In consideration of the contract and fee, the \_\_\_\_\_ are giving priority in using the property. Per section 6.1 of the contract, the \_\_\_\_\_ will use the property for their meetings and to conduct their charitable and fraternal programs and functions. Upon termination or expiration of the contract, the \_\_\_\_\_ will make annual legacy payments equal to \_\_\_\_\_ % of their gross revenue to the \_\_\_\_\_ for \_\_\_\_\_ years.

Activities

Due to the overlapping membership between the \_\_\_\_\_ and the \_\_\_\_\_, a single combined calendar was maintained for their \_\_\_\_\_ activities. A \_\_\_\_\_ calendar was requested during the field visit, but the \_\_\_\_\_ was unable to provide one and a \_\_\_\_\_ calendar was substituted in its place. The calendars show that one day each quarter was scheduled for members to come clean up and to handle building maintenance. A board meeting is held each month, usually preceding the \_\_\_\_\_ monthly board meeting.

The \_\_\_\_\_ building is primarily used by the \_\_\_\_\_ to conduct a weekly bingo game that is open to the general public. Aside from bingo, the building is also used by the \_\_\_\_\_ to conduct various fundraisers or other charitable collection events open to the public. When the building is not in use by the \_\_\_\_\_, the \_\_\_\_\_ makes it available for private events for a fee or to other organizations, such as the \_\_\_\_\_, for free. Use of the \_\_\_\_\_ building for private events is advertised on the \_\_\_\_\_ website [see Exhibit A]. The \_\_\_\_\_ and the \_\_\_\_\_ do occasionally have member-only events, such as a beer-brewing event and holiday parties.

**LAW:**

**Section 501(c)(7) of the Internal Revenue Code (“Code”)** exempts from income tax 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 net earnings of which inures to the benefit of any private shareholder.

**Section 1.501(c)(7)-1(a) of the Federal Tax Regulations (“Regulations”)** states that the exemption provided by section 501(a) for organizations described in section 501(c)(7) 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. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities

**Section 1.501(c)(7) – 1(b) of the Regulations** states that 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 section 501(a). Solicitation by advertisement

Form <b>886-A</b> (May 2017)	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule number or exhibit
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or otherwise for public patronage of its facilities is prima facie evidence that the \_\_\_\_\_ is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes.

**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 60-324, 1960-2 C.B. 173** states that a social club which has been granted exemption from Federal income tax under section 501(c)(7) of the Code may lose its exemption if it makes its club facilities available to the general public on a regular, recurring basis since it may then no longer be considered to be organized and operated exclusively for its exempt purpose.

**Revenue Ruling 66-150, 1966-1 C.B. 147** concluded that an organization which holds title to a building housing its parent, maintains the building, and operates the social facilities (i.e., bar, restaurant, and game room) located in the building does not qualify for exemption from federal income tax under section 501(c)(2) or 501(c)(4) of the Code; but it does qualify under section 501(c)(7) of the Code.

**Revenue Ruling 69-220, 1969-1 C.B. 154** rules that a social club that receives substantial rental income and uses that income to defray operating expenses and to improve and expand its facilities isn't exempt under section 501(c)(7) of the Code.

**Revenue Procedure 71-17** sets forth the guidelines for determining the effect of gross receipts derived from the general public's use of a social club's facilities on exemption under Section 501(c)(7) of the Code. Where nonmember income from the usage exceeds the standard as outlined in this Revenue procedure, the conclusion reached is that there is a nonexempt purpose and operating in this manner jeopardizes the organization's exempt status.

**TAXPAYER'S POSITION:**

Taxpayer's position has not been provided.

**GOVERNMENT'S POSITION:**

\_\_\_\_\_ is organized as an organization exempt under Internal Revenue Code Section 501(c)(7).

It is the government's position that the \_\_\_\_\_ articles of incorporation and bylaws do not meet the organizational requirements under Section 501(c)(7) of the Code. Rather than being organized for the purpose of pleasure or recreation for its members, the \_\_\_\_\_ primary purpose is to hold title to and maintain real property on behalf of a related organization. The \_\_\_\_\_ existence is dependent on



Form <b>886-A</b> (May 2017)	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule number or exhibit
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it owning real property; per its bylaws any sale or disposition of the real property would cause the dissolution of the . Additionally, the does not meet the exception criteria stated in Revenue Ruling 66-150, due to it not operating any social facilities for its members such as a bar or restaurant.

**Whether is operating as an organization exempt under Internal Revenue Code Section 501(c)(7).**

As to whether the meets the operational requirements to be exempt under Section 501(c)(7) of the Code, it is the government's position that the fails to meet these requirements due to the following:

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

The only provided records for the tax year that indicated the portion of rental income received from members and nonmembers. Per Revenue Procedure 71-17, we will treat all rental income received for private events as nonmember sourced for the tax year. For the years under examination, the received % and % of their gross receipts from nonmember sources in and , respectively. These amounts exceed the % limit on income from non-member use of facilities set forth in Public Law 94-568. Additionally, the did not report the income received from nonmembers, income from members for private events, and interest income on a Form , as is required by an organization exempt under Section 501(c)(7) of the Code.

	Gross Receipts	Percentage
Use Fees (Private Events)	\$	%
Total Gross Receipts (Corrected for transfer reported as revenue)	\$	

	Gross Receipts	Percentage
Use Fees (Private Events-Nonmember)	\$	%
Use Fees (Private Events-Member)	\$	%
Total Gross Receipts	\$	

Further examination of the other source of income, the rental fee received from the , and the shared calendar of activities indicate that the income was for the use of the building for their bingo game. It was determined that the weekly bingo game, along with other fundraising events also open to the general public, are the primary use for the building. There is a lack of activities or facilities (such as a bar or restaurant) that support socialization among members. Any member-only events, such as the board meetings and occasional holiday party were incidental.

Form <b>886-A</b> (May 2017)	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule number or exhibit
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It was determined that the sole purpose is managing rental operations for the building. This is supported by their organizational documents, sources of income, and activities.

**CONCLUSION:**

Based on the provided organizational documents and operations, we have determined that the does not meet the requirements for an organization exempt under Section 501(c)(7) of the Code and is disqualified for the tax periods ending and

Should this disqualification be upheld, Form 1120, *U.S. Corporation Income Tax Return*, must be filed starting with tax periods ending