



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

Date: May 11, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Number: 202230012  
Release Date: 7/29/2022

UIL: 501.07-00

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Dear

**Why we are sending you this letter**

This is a 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), for the tax periods above. Your determination letter dated , is revoked.

Our adverse determination as to your exempt status was made for the following reasons: You have not established that you are operated substantially for pleasure and recreation of your members or other non-profit purposes and that no part of the earnings inures to the benefit of any private shareholder within the meaning of IRC Section 501(c)(7). Your nonmember income has exceeded the 15%/35% nonmember threshold for tax year ending , as outlined in Public Law 94-568. Therefore, your exempt status under IRC Section 501(c)(7) is revoked effective

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:**  
May 6, 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:**  
June 8, 2020

**CERTIFIED MAIL – Return Receipt Requested**

Dear :

**Why you're receiving this letter**

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(7).

**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 501(c)(7) for the periods above.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

**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.

**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.

**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](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,

*Maria Hoche*

Director, Exempt Organizations  
Examinations

Enclosures:

Form 6018

Form 4621-A

Form 886-A

Publication 892

Publication 3498

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

**ISSUES:**

Whether the ( ) is organized and operated exclusively under Internal Revenue Code (IRC) §501(c)(7) as a social club?

Whether or not activities and revenues are in furtherance or its exempt purpose under IRC §501(c)(7)?

**FACTS:**

was originally founded as and was granted exemption under a group ruling for a 501(c)(7) on

On , filed an amendment with the Internal Revenue Service (IRS) to change its name from to . The IRS referenced a letter sent to dated , that gave tax exemption under IRC §501(c)(7).

In response to the IDR issued following information was received from the organization regarding its history:

was founded as in in order to purchase and maintain a on the of , located in . It was in active operation for years until when decided to reduce and eliminate on . Since owned the land the house was located on, it didn't purchase the house or give any money to . Instead the put cash equal to the value of the house in a trust for . In , requested that the trust be moved to the to be used by for educational purposes.

and its board members are all volunteer of and . Since it was originally created to support an active on the and the of the , and since doesn't have an active on , the organization spends a portion of its income each year to support functions at and weekends. also provides to offspring of who attend . Checks written to members of the board are reimbursements for out of pocket expenses. Other expenses are to support the events ( ), tax preparation, taxes and fees as required.

has its sole investments with . It maintains a conservative investment portfolio to provide funds for alumni functions in and . The fund is for the benefit of the , interface with the , and to support offspring of . An ad hoc volunteer from is working with the at this time trying to get an active back on .

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**Articles of Incorporation:**

The Articles of Incorporation of \_\_\_\_\_ states "The purpose of the corporation is to care for the investment of money received from the sale of property, gifts, and inheritances; pay for the needs of the \_\_\_\_\_ of \_\_\_\_\_ at \_\_\_\_\_, (the "\_\_\_\_\_") including but not limited to fire insurance on furnishings and property in the dormitory owned by the \_\_\_\_\_ or leased by the \_\_\_\_\_; furnish additional furnishings over and above that furnished by \_\_\_\_\_; to pay for \_\_\_\_\_; finance the costs of sending delegates from the \_\_\_\_\_ each year to Leadership Training; finance cost of sending delegates from the \_\_\_\_\_ each year to Leadership Training; finance cost of sending delegates from the \_\_\_\_\_ to the \_\_\_\_\_; to provide guidance for the \_\_\_\_\_ and to assure that it abides by the Constitution and Statues of the \_\_\_\_\_ and rules and regulations of \_\_\_\_\_; and to provide \_\_\_\_\_ to \_\_\_\_\_ of the \_\_\_\_\_ and such other lawful purposes under the Nonprofit Corporation Act. Said organization is organized exclusively for charitable, religious, educational, and scientific purposes, including research purposes, the making of distributions to organizations that qualify as exempt organizations under section 501(c)(7) of the Internal Revenue Code or corresponding section of any future federal tax code."

In Exhibit A of the Articles of Incorporation Article 6 states, "The corporation shall have no members, all rights of members as set forth under the Nonprofit Corporation Law of 1988 are assumed by the Board of Directors pursuant to Section 5751 of said law."

Article 7 states, "No part of the net earnings of the organization shall inure to the benefit of, or be distributable to its members, trustees, officers, or other private persons, except that the organization shall be authorized and empowered to pay reasonable compensation for services rendered to make payments and distributions in furtherance of the purposes set forth in the purpose clause hereof."

**Bylaws:**

The Bylaws were adopted \_\_\_\_\_, amended \_\_\_\_\_

The Purpose of the Bylaws is stated in Article I.

**1.5 Purpose.** *The corporation is incorporated under the for the following purpose or purposes:*

- (a) To accept donations of money for distribution to other tax-exempt, Charitable organizations.*
- (b) The corporation is organized exclusively for charitable, religious, scientific, and educational purposes as defined in Section 501(c)(7) of the Internal Revenue Code, including, but not limited to any such activity which may be permitted by corporations*

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formed under and pursuant to the

**Amendment of the Bylaws:**

The amendment to the Bylaws was adopted

Article I, Section 1.5 is amended to state:

1.1 1.5 Purpose. The corporation is incorporated under the for the following purpose-or purposes.

(a) To care for the investment of money received from the sale of property, gifts and inheritances;

(b) To pay no more than five ( %) percent of the combined principal and interest of the investment account, to provide to descendants of members of the at and other at any or who are members of the ;

(c) To fund functions of the at provided said functions are held within ,

**Relationships and Activities of :**

owned the land the house resides on and took control of the house in put the cash value of the house in a trust for scholarships. took control of the trust, put the money in an investment account. They utilize the dividends and investment income to pay for the alumni activities and the taxes for the amount invested.

**Activities:**

For the years under exam provided hats and paid for the activities during years under audit. In , paid the taxes and fees for the accountant out of the fund for the , started paying for the to . They provided two , one for \$ and one for \$ to descendants.

**Revenue Sources:**

reported the following sources and amounts of revenue on Form for the periods ended and subsequent year



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**990 Information**

<b>Activities &amp; Governance</b>				
7a	Total unrelated business revenue from Part VIII, column (C), line 12			
7b	Net unrelated business taxable income from Form , line 34			
<b>Revenue</b>				
8	Contributions and grants (Part VIII, line 1h)			
9	Program service revenue (Part VIII, line 2g)			
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)			
11	Other Revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c and 11e)			
12	Total Revenue-add lines 8 through 11 (must equal Part VIII, column (A), line 12)			
<b>Expenses</b>				
13	Grants and similar amounts paid (Part IX, column (A), lines 1-3)			
14	Benefits paid to or for members (Part IX, column (A), line 4)			
15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)			
16a	Professional fundraising fees (Part IX, column (A), line 4)			
16b	Total fundraising expenses (Part IX column (D), line 25)			
17	Other expenses (Part IX column (A), lines 11a-11d, 11f-24e)			
18	Total expenses Add lines 13-17 (must equal Part IX, column (A), line 25)			
19	Revenue less expenses Subtract line 18 from line 12			

**LAW**

IRC § 501(c)(7) exempts from federal income tax "clubs" organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and not part of the net earnings of which inures to the benefit of any private shareholder.

IRC 501(c)(7) further establishes that the ordinary meaning of the term "club" implies that there must be club members, and that there must be a "commingling" of the members for social, recreational, or similar purposes. The commingling requirement has been stated in Rev. Rul. 58-589, 1958-2 C.B. 266, Rev. Rul. 70-32, 1970-1 C.B. 132, and Rev. Rul. 74-30, 1974-1 C.B. 137. Commingling is present if such things as meetings, gatherings and regular meeting facilities are evident.

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Rev. Rul. 58-589, 1958-2 C.B. 266, discusses the criteria for exemption under IRC 501(c)(7) and holds that a club must have an established membership of individuals, commingling, and fellowship to be a social club within the meaning of the statute. While this does not mean that a club cannot have artificial entities, such as corporations, as members, a federation composed completely of artificial entities (clubs) was held to be not exempt under IRC 501(c)(7) in Rev. Rul. 67428, 1967-2 C.B. 204. The rationale of that case was that a federation of clubs was a collection of artificial entities not capable of the kind of commingling required of the membership of exempt clubs. Thus, corporate memberships will not automatically disqualify a club as long as there are sufficient individual members to provide the requisite amount of fellowship and commingling. (See Rev. Rul. 74168, 1974-1 C.B. 139).

Section 1.501(c)(7) of the Regulations provides that, in general, the exemption extends to social and recreation clubs supported solely by membership fees, dues and assessments. However, a club that engages in a business, such as making its social and recreational facilities open to the general public, is not organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a).

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other non-profitable 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.

Revenue Ruling 66-149 holds a social club as not exempt as an organization described in IRC § 501(c)(7) where it derives a substantial part of its income from non-member sources.

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 IRC § 501(c)(7). Where nonmember income from the usage exceeds the standard as outlined in this

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Revenue procedure, the conclusion reached is that there is a non-exempt 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**

Based on the examination results and the facts listed under the heading of this report, does not qualify for exemption as a social club described in IRC §501(c)(7) and Treas. Reg. §1.501(c)(7) which provides that in general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments.

The examination results and the information returns filed by for fiscal year ended and show that % of the revenues came from investment income and trading securities. Therefore, it precludes the from tax exemption under IRC §1.501(c)(7). In addition, the following revenue rulings supports this conclusion.

Rev. Rulings. 66-149 holds "a social club as not exempt as an organization described in IRC § 501(c)(7) where it derives a substantial part of its income from non-member sources".

The organization has exceeded the % non-member threshold as outlined in Public Law 94-568, on a recurring basis during tax years ended and

**Sources of Income:**

Per revenue reconciliation from Form return and books and records including: & accounts, we found investment income as the only source of income reported. The investment income was recorded on the following two accounts: number and Account number. In , the only income came from the investment Account.

Based on Form and analysis of gross receipts, it was noted that the organization's total income received was from investments (trading securities) for both fiscal years ended and respectively. There was no other source of income reported on return and on the books and records reviewed.

**Membership:**

is not organized as a membership organization as stated in Exhibit A Article 6. While this does not mean that a club cannot have artificial entities, such as corporations, as members, a

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federation composed completely of artificial entities (clubs) was held to be not exempt under IRC 501(c)(7) in Rev. Rul. 67428, 1967-2 C.B. 204.

**Activities:**

is currently not operating under the meaning of IRC § 501(c)(7). There are no activities currently being conducted at the club house it supposed to maintain for recreational and other related activities. Trading securities as an Unrelated Business Activity precludes it from exemption under IRC 501 (c)(7).

**CONCLUSION:**

no longer qualifies for exemption under § 501(c)(7) of the Code since its nonmember income has exceeded the 15% nonmember threshold on a continuing basis. In addition, during the years under examination, there are no active members nor any IRC501(c)(7) exempt activities. Therefore, it is proposed that exempt status under § 501(c)(7) of the Code be revoked effective is required to file Form 1120 and must be filed starting with tax periods starting