



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

Date: May 10, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Number: 202230014
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-profitable purposes and no part of the earnings inures to the benefit of any private shareholder within the meaning of IRC Section 501(c)(7). You have made your recreational and social facilities available to the general public. You have exceeded the non-member income test for tax year ending

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

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. 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



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

Date:
03/03/2020
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:

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 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.

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.

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,

Maria Hooke
Director, Exempt Organizations Examinations

Enclosures:

Form 886-A, Form 6018, Form 4621-A
Pub 892, Pub 3498

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

ISSUE(S) :

1. (" " or "organization") qualifies for tax-exempt status on 501(c)(7) of the Internal Revenue Code due to failure to meet statutory requirements as a social club? Additionally, is organized and operates pursuant to an organization exempt under Section 501 (c) (7) of the code?
2. Whether if met statutory requirement as social club and function as a 501(c)(7) exceeded % of unrelated business income.

FACTS :

The has been in existence since of . They were incorporated under the State of on . The purpose of , as stated in the by-laws, is to hold and maintain property for commercial purposes and to provide a home for the , . Also, its purpose is to lease space to other community groups, operate a and and meeting place for members.

was initially established as IRC section (2) in ng title for facility including the grounds and building. in . Shortly after the a submitted a new application for IRC section 501(c)(7) in . In a letter dated , The Inc was granted exemption under IRC section 501(c)(7). As stated in the application, as a result, they would be able to provide its facility to a larger range of events such as social of , and the public. also stated at no time would activities exceed % non- es. According to Form , the organization incorporates all the members of the of for no additional fee.

Treasury Regulation Section 1.501(c)(7)-1 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 nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

general, the 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.

In order for _____ to meet the statutory requirement as a social club p _____ ion 501(c)(7), it must accomplish the following:

- Must consist of membership organizations supported by dues, fees, charges or other funds paid by their members.
- Organized and operating per the exempt purposes of IRC § 501(c)(7).
- The members are bound together by a common objective directed toward pleasure, recreation or similar nonprofit purposes.
- The activities are in furtherance of pleasure, recreation or other similar nonprofit purposes.
- There is no inurement of income.
- All unrelated trade or business income has been properly reported on the Form _____, Exempt Organizations Business Income Tax Return.
- Limits its membership to the members of a particular religion in order to further its teachings or principles, and not to exclude individuals of a particular race or color under IRC § 501(i)(2).
- Limit its membership to individuals of a particular national origin without jeopardizing its exemption.
- Restrict its membership to a particular political party or to homeowners in a specific housing development.

Since its existen _____ o membership income and no member listing. _____, according to the by-laws, are only members _____ of _____ of _____ are _____ offered embership in this organization. However, _____ recorded no membership list from the of _____, no member _____ membership activities from said organization. or recreations for pleasure. The in _____ are not from membership dues, nor is it from revenue through club facility use and activities. On the contrary, revenue is raised solely through _____ rentals, _____ sales, _____ sales and sales.

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

operates a sq. ft. building which includes an podium, storage closets, huge kitchen stools, tables, chairs, televisions and pool table. has active license issued by the state authori . The license type is Retail - On Premises which permits the sale and of .

The Form reflects all income for food and lounge sales to be related exempt function. However, the gross rents totals according to Form shows as more % of s included non-members income. That % is based on perception prior to audit, that the members from were their members. Lease agreements includes cost of sold, however no separation for non-member sales reflected.

advertises through of mouth. Also, at the edge of the sidewalk where the building is located stands a tall, flashing billboard advertising for weddings and other events call. No specification for "members only" in advertisement.

During the exit interview held , the Power of Attorney stated that agreed with facts and disposition of the case. She indicates that the organization does not meet the requirements of a 501(c)(7), which was also confirmed in the letter dated

LAW:

Internal Revenue Code

IRC section 501(c)(7) provides exemption from income taxes for clubs organized for pleasure, recreation, and other nonprofitable 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.

IRC Section 501(c)(2) provide exemption from income taxes for corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under Section 501(a).

Treasury Regulations

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Treas. Reg. §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 through the use of 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. [Reg. §1.501(c)(7)-1(b)]

Treas. Reg. § 1.501(c)(7)-1

(a) 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 nonprofitable 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.

(b) 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 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.

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

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a).

[*Treas. Reg. §1.501(c)(7)-1 has not been updated to reflect P.L. 94-568 which changed "exclusively" to "substantially all".]

It was the enactment of P.L. 94-568 in 1976 which changed the term "exclusively" to "substantially all". This change, as incorporated in the IRC allows for an insubstantial amount of income from activities that do not further the club's exempt purposes. These activities which constitute an unrelated trade or business include the use of the club facilities by the general public.

Senate Report No. 94-1318 (1976), 2d Session, 1976-2 C.B. 597, at page 599 defines "substantially all" and explains that a social club is permitted to receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. It is also intended that within this 35% not more than 15% of the gross receipts should be derived from the use of a social club's facilities or services by the general public (nonmembers).

Treas. Reg. §1.501(c)(2)-1(a) further provides that a corporation described in Section 501(c)(2) cannot be exempt under Section 501(a) if it engages in any business other than that of holding title to property and collecting income therefrom.

Revenue Procedures

Rev. Proc. 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. This requirement applies even though the member pays initially for such use. In each instance the record must contain the following information:

1. The date;
2. The total number in the party;
3. The number of nonmembers in the party;
4. The total charges;
5. The charges attributable to nonmembers;
6. The charges paid by nonmembers;

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

7. Where a member pays all or part of the charges attributable to nonmembers, a statement signed by the member indicating whether he has been or will be reimbursed for such nonmember use and, if so, the amount of the reimbursement:

8. Where the member's employer reimburses the member or makes direct payment to the club for the charges attributable to nonmembers, a statement signed by the member indicating the name of his employer; the amount of the payment attributable to the nonmember use; the nonmember's name and business or other relationship to the member; and the business, personal, or social purpose of the member served by the nonmember use.

9. Where a nonmember, other than the employer of the member, makes payment to the club or reimburses a member and a claim is made that the amount was paid gratuitously for the benefit of a member, a statement signed by the member indicating the donor's name and relationship to the member, and containing information to substantiate the gratuitous nature of the payments or reimbursement.

Exceptions to these record keeping requirements are:

1. Where a group of eight or fewer individuals, at least one of whom is a member, uses club facilities, it will be assumed for audit purposes that the nonmembers are the guests of the member, provided payment for such use is received by the club directly from the member or the member's employer.
2. Where 75 percent or more of a group using club facilities are members, it will likewise be assumed for audit purposes that the nonmembers in the group are guests of members, provided payment for such use is received by the club directly from one or more of the members or the member's employer.
3. Solely for purposes of 1 and 2, above, payment by a member's employer will be assumed to be for a use that serves a direct business objective of the employee-member.

Where a club makes its facilities available to the general public to a substantial degree, the club is not operated exclusively for pleasure, recreation, or other non-profitable purposes.

Revenue Rulings

Rev. Rul. 58-589, 1958-2CB 266 examines the criteria for determining whether an organization qualifies for exemption under IRC section 501(a) as an organization described in section 501(c)(7) of the Code. This ruling states it is clear under the foregoing regulations 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, etc., may not be considered as being organized and

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

operated exclusively for pleasure, recreation or social purposes. It is equally clear that the solicitation by advertisements or otherwise of public patronage of its facilities may be averse to the establishment of an exempt status.

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 Ruling 60-324 states by making its social facilities available to the general public the club cannot be treated as being operated exclusively for pleasure, recreation or other non-profitable purposes.

Revenue Ruling 55-716 states 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 Internal Revenue Code of 1954 as a club organized exclusively for pleasure, recreation, and other non-profitable purposes. Furthermore, there are no other provisions of law under which such an organization may be held to exempt from Federal income tax.

Revenue Ruling 69-220 states that a social club that receives 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 section 501(c)(7) of the Code.

Revenue Ruling 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.

Court Cases

In *Spokane Motorcycle Club v. United States*, 222 F.Supp. 151, the court ruled that refreshments, goods, and services furnished to members of a charitable, nonprofit corporation from business enterprise net profits constituted benefits inuring to individual members, and, therefore, corporation was not exempt from federal income tax. Judge Powell further stated, "But it is clear that when a club, otherwise exempt, engages in a business from which it derives profits from outside sources wholly disproportionate to its nontaxable purposes, and such profits inure to the benefit of its members in the nature of permanent improvements and facilities, it loses its exempt status under the definitive provisions of the statute. It should be noted that to be exempt from taxation, the club must not only be

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

organized exclusively for pleasure, recreation and other nonprofitable purposes, but it must be operated exclusively for those purposes as well."

In *Aviation Club of Utah v. Commissioner of Internal Revenue*, 162 F.2d 984, the court upheld the position taken by the tax court in a previous ruling whereby the income received by the club from non-exempt activities was so disproportionate to the income received from exempt purposes that the club lost its exempt status. Judge Murrah invoked the same concept as that in *Spokane Motorcycle Club v. United States*, whereby if a club engages in a business from which it derives profits from outside sources wholly disproportionate to nontaxable purposes, and such profits inure to the benefit of its members in the nature of permanent improvements and facilities, the club loses its exempt status.

GOVERNMENT'S POSITION:

Issue 1

As stated in the facts and law of this document earlier, Treasury Regulation Section 1.501(c)(7)-1 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 nonprofitable 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, the 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.

her had a club with members or club organized and for pleasure, recreation, or club activities. The organization originally established to hold title to building under IRC Section 501(c)(2). Only after acquisition of the license in , they requested exemption under IRC Section 501(c)(7) in . However, nothing else was change structurally in the organization or operation of the organization. They continued to operate as a 501(c)(2) since inception. At the request of the organization, the Power of Attorney on requested to restructure its operational and organizational activities in order to

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

meet the statutory requirements and keep their exemption under IRC Section 501(c)(7).

Treas. Reg. 1.501(c)(7)-1(a) states IRC Section 501(c)(7) exempt from tax clubs organized for pleasure, recreation, and other non-profitable 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 shareholder. Social and recreational clubs operate solely by membership fees, dues, and assessments. operates with no member listing or membership. from dues or assessments to members. Rev. Rul. 66-149 support position stating that a social club is not exempt under Code section 501(c)(7) if the organization regularly derives a substantial part of its income from non-member sources, such as investment income. The organization's revenue primarily derives from rental of the from of and general public, sales, and sales.

like the organization in Rev. Rul. 55-716, simply and by selling . The organization only activities consist of the rental, sale and of . You have no member events and that is not exempt under section 501(a).

Clubs statutory requirements must be organized for pleasure, recreation and other non-profitable purposes. The IRC Section 501(c)(7) has held that these other non-profitable purposes must be similar to providing pleasure and recreation. Sponsoring activities non-profitable nature can lead to denial or revocation if the activities are not similar to providing pleasure and recreation. A club is not exempt if it does not provide pleasure and recreation on a profitable basis. Evidence that a club may be operating on a profitable basis exists if: Membership requirements are broad or vaguely stated, and the initiation charges or dues are so low that one-time or temporary use of the facilities by the general public is encouraged. The organization did not report membership dues or any other income from the members of the organization.

It is the government's position that does not meet the statutory requirements of 501(c)(7) use it does not have members, does not have membership, does not have member meetings, does not have dues or assessments, does not have activities for pleasure, recreation, or commingling. The facility was used only for non-members' activities which is not in accordance to IRC Section 501(c)(7) exemption requirements.

Issue 2

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Section 501(c)(7) social club can receive up to % of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. Within the %, not more than % of gross receipts should be derived from the use of the social club's facilities or services by the general public (non-members). Social Clubs may exceed these thresholds. Senate Report No. 94-1318; 94th Congress, 2d Session; H.R. 1144, which is the basis for the 15/35 percent non-member income test, states that for organizations exceeding the 35 percent and 15 percent limitations, a facts and circumstances test must be applied when considering revocation.

Rental income earned from the property does not demonstrate a causal relationship to the organization and the requirements to be an exempt social club under IRC 501(c)(7) organization based on the examination for the year under audit. These incomes combined is % of the gross income for the year under audit. This income is well in excess of both % limitation on non-member income and % limitation on investment income.

imilar to the organization in Rev. Rul. 69-220 for exemption under IRC section 501(c)(7) because it receives a substantial portion of its income from sources other than members. The club's gross rental income from its commercial tenants amounts to % of its total gross income.

Based on the information received during the examination, a facts and circumstances test did not apply in this case, because the organization had % of non-member income from to present due to never having members. Reflected below are total income from -

Form	
and Sales	\$
Rental Income	\$
Miscellaneous Income	\$
Total Revenue	\$
Percentage of non-member income	%

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

To be operated for the purposes describes in IRC section 501(c)(7) of the code, an organization must have an established membership of individuals who meet to make personal contacts and promote fellowship. The commingling of the members must play a material part in the life of a tax-exempt social club. Rev. Rul. 69-635 states that commingling helps distinguish a 501(c)(7) social club from a commercial business.

As prescribed in Treasury Regulation section 1.501(c)(7)-1 (b), the Club is engaging in business activities and is therefore not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes.

It is the government's position income exceeded the 15% threshold for unrelated the income received during the organization ption including the examination year were from non-member income. Hence, the organization does not qualify for exemption under IRC Section 501(c)(7) due to the excess unrelated business income.

TAXPAYER'S POSITION:

The organization has agreed to the government's position for revocation.

CONCLUSION:

The does not qualify for exemption from federal income tax under IRC § 501(c)(7) because it neither meets the statutory requirements, organized or operates as such an organization. In addition to this fact, because it does not meet these basic requirements of social, recreational activities of members or the facility to be use for its members activities, % of gross income is from non-member sources. This income is well in excess of both % limitation on non-member income and 35% limitation on investment income.

Therefore, the exempt status granted to should be revoked e ctive .

Form 886-A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer	Tax Identification Number <i>(last 4 digits)</i>	Year/Period ended

If revocation is sustained,
is required to file Forms for the tax years ending
and thereafter.