



**Department of the Treasury
Internal Revenue Service
Independent Office of Appeals**

Date: **JUN 22 2022**

Person to contact:
Name:
Employee ID Number:
Phone:
Fax:
Hours:
Employer ID number:

Release Number: 202237013
Release Date: 9/16/2022

Uniform Issue list (UIL):
501.07-00

Certified Mail

Dear :

This is a final adverse determination that you do not qualify for exemption from federal income tax under Internal Revenue Code (the "Code") Section 501(a) as an organization described in Section 501(c) of the Code.

We have hereby revoked the favorable determination letter to you dated April 15, 19 , and you are no longer exempt under Section 501(a) of the Code effective June 1, 20 .

We made the adverse determination for the following reasons:

This is a final adverse determination that you do not qualify for exemption from federal income tax under Internal Revenue Code (the "Code") Section 501(a) as an organization described in Section 501(c)(7) of the Code. Organizations described in section 501(c)(7) of the Internal Revenue Code and exempt from tax under section 501(a) must be organized for pleasure, recreation, and other non-profitable purposes, and substantially all of the activities of the organization must be for such purposes. A section 501(c)(7) organization may receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. Your organization has no members and the sole source of income is from investments, which results in excessive nonmember and investment income exceeding 35 percent of your total income. Accordingly, your organization is not organized and operated exclusively for exempt purposes within the meaning of section 501(c)(7).

You're required to file federal income tax returns on Forms 1120, U.S. Corporation Income Tax Return. Mail your form to the appropriate Internal Revenue Service Center per the form's instructions. You can get forms and instructions by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

We'll make this letter and the proposed adverse determination letter available for public inspection under Section 6110 of the Code after deleting certain identifying information. We provided to you, in a separate mailing, Notice 437, Notice of Intention to Disclose. Please review the Notice 437 and the documents attached that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437.

If you decide to contest this determination, you can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. Contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment. You can write to the courts at the following addresses:

United States Tax Court	US Court of Federal Claims	US District Court for the District of Columbia
400 Second Street, NW	717 Madison Place, NW	333 Constitution Avenue, NW
Washington, DC 20217	Washington, DC 20005	Washington, DC 20001

Note: We will not delay processing income tax returns and assessing any taxes due even if you file a petition for declaratory judgment under Section 7428 of the Code.

You also have the right to contact the Taxpayer Advocate Service (TAS). 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.

TAS assistance is not a substitute for established IRS procedures, such as the formal appeals process. TAS cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States Court.

If you have questions, contact the person at the top of this letter.

Sincerely,

Commissioner
By

Timothy D Jarvis
Appeals Team Manager

Enclosures:

cc:



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

Date:
April 30, 2021
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:
May 31 2021

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.

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 or call 877-777-4778.

For additional information

You can get any of the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

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

Sincerely,

Danisa Gonzalez for

Sean E. O'Reilly
Director, Exempt Organizations
Examinations

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

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

ISSUE

Should _____ (hereafter EO) continue to qualify as an organization described in Section 501(c)(7) of the Internal Revenue Code?

FACTS

EO was originally incorporated under the name _____ on December 28, 19 ____ in the ____ . It subsequently filed an amendment changing its name to _____ on May 18th, 19 ____ . It submitted Form 1024, Application for Recognition of Exemption under Section 501(a), and received individual exemption under section 501(c)(7) with effective date April 15, 19 ____ .

In March 19 ____ the EO became a subordinate organization under group exemption number ____ . The parent organization, _____ is exempt under section 501(c)(7).

The EO's stated purpose is the maintenance of a _____ for the benefit of _____ at _____, known as " _____ " .

The EO's January 21, 20 ____ response to Information Document Request (IDR) #1, requesting membership information states that "there are currently no members of the ____ ". The EO's narrative also states: "In 20 ____ , the Chapter was asked to leave campus because of violations of certain college rules (social gatherings that were not within the parameters set forth by _____) and, as a result, there were no longer any members for which the Chapter could provide services."

No member dues were reported on the organization's _____ return for years 20 ____ and 20 ____ .

The table below summarizes the income reported in years 20 ____ (year under audit) and 20 ____ (inspected return)

Year ending May 31	20 ____	20 ____
Member Dues	\$ _____	\$ _____
Investment Income	_____	_____
Total Revenue (line 12 of Form _____)	_____	_____
Percent of Total Revenue	_____ %	_____ %

The parent organization's website lists all subordinates and their status at that page, the _____ is listed with a Status of " _____ " . On _____ .

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit <i>Form</i>
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The website of _____ at _____ states the following with respect to the EO's building on campus:

LAW

Section 501(a) of the Internal Revenue Code exempts from taxation organizations described at subsection 501(c)(7) as clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such pleasure, recreation, and other non-profitable purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1 of the Income Tax Regulations states in pertinent part, that:

- (a) The exemption provided by § 501(c)(7) of the Code 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 that 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 their products, is not organized and operated exclusively for pleasure, recreation, or social purposes.

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

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit Form
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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; 1966-1 C.B., holds a social club as not exempt from Federal income tax as an organization described in IRC § 501(c)(7) of the Internal Revenue Code of 1954 where it derives a substantial part of its income from non-member sources such as, for example, dividends and interest on investments which it owns.

Internal Revenue Code Section 512(a)(3)(B) states that for purposes of subparagraph (A), the term "exempt function income" means the gross income from dues, fees, charges, or similar amounts paid by members of the organization as consideration for providing such members or their dependents or guests goods, facilities, or services in furtherance of the purposes constituting the basis for the exemption of the organization to which such income is paid. Such term also means all income (other than an amount equal to the gross income derived from any unrelated trade or business regularly carried on by such organization computed as if the organization were subject to paragraph (1)), which is set aside for a purpose specified in section 170(c)(4).

TAXPAYER'S POSITION

Unknown at this time

GOVERNMENT'S POSITION

An organization exempt from federal income taxes as described in IRC section 501(c)(7) must be a membership supported organization which provides the opportunity for personal contact between its members and must meet the gross receipts test in order to maintain its exemption. In order to meet the gross receipts test, an organization can receive up to thirty-five percent (35%) of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. Within this 35% amount, not more than fifteen percent (15%) of the gross receipts should be derived from the use of a social club's facilities or services by non-members.

Based on the examination, the EO 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 recreation clubs which are supported solely by membership fees, dues, and assessments.

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit Form
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Rev. Rul. 66-149 supports this position stating that a social club is not exempt under Code section 501(c)(7) if it regularly derives a substantial part of its income from nonmember sources, such as investment income.

Per Treas. Reg. Section 1.501(c)(7)-1(a), substantially all of the organization's activities are not for pleasure, recreation, or other nonprofit purposes. All of its income is derived from non-member sources and it has no members.

The EO reported no member dues and investment income comprised 100% of their gross income in the year ending 20 . Inspection of the EO's return for year-ending 20 shows that, again, no member dues were reported and investment income was % of gross income. The EO exceeded the 35% non member threshold as outlined in Public Law 94-508.

Accordingly, it is proposed that the EO should be removed from the parent organization's group exemption number effective June 1, 20 .

CONCLUSION

no longer qualifies for exemption under § 501(c)(7) of the Code as there are no members, no opportunity for fellowship or commingling of members exists and nonmember income has exceeded the 35% investment income threshold on a continuing basis.

Accordingly, the EO is not entitled to tax exemption under 501(c)(7) of the Code and should be removed from the group exemption, effective June 1, 20 . Form 1120, *U.S. Corporation Income Tax*, should be filed for tax year ending , 20 and thereafter.

You have the right to file a protest if you disagree with this determination. To protest, you must submit a statement of your position and fully explain your reasoning within 30 days from the date of this letter. Details of filing a protest can be found in the enclosed publications. We will consider your statement and decide if that information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to Appeals Office.

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