



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

Date: July 6, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Release Number: 202239016

Release Date: 9/30/2022

UIL Code: 501.07-00

Person to contact:

Name:

ID number:

Telephone:

Fax:

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 years ending and

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.

Letter 6337 (12-2020)
Catalog Number 74808E

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.

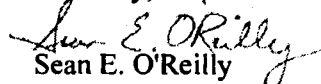
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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:
03/11/2021
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:
April 12, 2021

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.

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 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,

Denise Gonzalez for

Sean E. O'Reilly
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018
Publication 892
Publication 3498

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

ISSUE

Should _____ continue to qualify for Section 501(c)(7) of the Internal Revenue Code?

FACTS

_____ (hereafter _____) was formed as a corporation in the State of _____. _____ was issued a determination letter by the Internal Revenue Service (IRS) on _____ under IRC 501(c)(7). _____ is required to file Form _____ and its calendar year ends _____.

_____ provides pleasure and recreation to _____ and _____. It propagates _____ in the area by _____ and _____ in various locations throughout the community. It operates a _____, a _____, a _____, and an _____ course. It conducts organized _____ for members and their guests. It conducts a state certified _____ safety course. It provides instructional courses for members' children regarding _____ and all other _____. It sponsors a _____ course as required by state law for ownership of a _____. It operates a clubhouse and _____ to provide members with _____ and accessories for the lowest possible cost. All activities are held at the organization's facility and conducted by volunteers from the organization's membership.

_____ receives significant amount of income from program services and membership dues. It derives additional income from fundraising and inventory sales. It receives notable amount of interest income from deposits in bank accounts. _____ primary income source is rental income from the renting of a parcel of land to a _____ for the erection and use of a _____. This rental income is shown on return as investment income.

_____ has rental income that it uses to help finance its activities and with upkeep of their facilities. _____ filed Form _____ for tax period _____ and _____ filed Form _____ for tax periods _____ and _____. Below is the percentage of nonmember income to total income:

Form		
Nonmember Income (Rental)	\$	\$
Total Income		
Percentage of non-member income	%	%

LAW

Section 501(c)(7) of the Internal Revenue Code 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 insures to the benefit of any private shareholder.

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Treasury Regulation Section 1.501(c)(7)-1(a) states that the exemption provided by Code section 501(a) for organizations described in Code section 501(c)(7) applies only to clubs that 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 recreational clubs which are supported solely by membership fees, dues and assessment.

Treasury Regulation Section 1.501(c)(7)-1(b) provides 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 Code section 501(a).

Public Law 94-568, 1976-2 C.B. 596 provides that a social club may receive up to 35% of its gross receipts, including investment income from sources outside its membership, without losing exemption. Within this 35% amount, 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. This means that an exempt social club may receive up to 35% of its gross receipts from a combination of investment income and receipts from nonmembers so long as the latter do not represent more than 15% of the total receipts.

Revenue Ruling 58-589, 1958-2 C.B. 266 sets forth the criteria for exemption under section 501(c)(7) of the Code and provides that a club may lose its exemption if it makes its facilities available to the general public. A club will not be denied exemption merely because it receives income from the general public provided such participation is incidental to and in furtherance of its general club purposes. To retain exemption a club must not enter into outside activities with the purpose of deriving profit. If such income producing activities are other than incidental, trivial or nonrecurrent, it will be considered that they are designed to produce income and will defeat exemption.

Revenue Ruling 60-324, 1960-2 C.B. 173 states that a club that makes its facilities available to the general public (including other organizations) for a fee, in a manner which is other than incidental to or in furtherance to its own social purposes, will not be entitled to exemption.

Revenue Ruling 65-63, 1965-1 CB 240 holds that a non-profit organization which, in conducting sports car events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising, does not qualify for exemption as a club organized and operated exclusively for pleasure, recreation and other non-profitable purposes under section 501(c)(7) of the Internal Revenue Code.

Revenue Ruling 66-149, 1966-1 C.B. 146 provided that a social club is not exempt from federal income tax as an organization described in IRC section 501(c)(7) if it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments. In this instance, the club's funds were invested primarily for the purpose

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of producing income through dividends, interest, or capital appreciation. It was evident that 1) such income was regularly derived from nonmember sources, 2) that the income was received in fulfillment of and pursuant to a profit motive, and 3) that the income from investments was substantial in relation to total income.

Revenue Ruling 68-638, 1968-2 C.B. 220 states that a country club that annually host a golf tournament to which the general public is admitted for a charge and uses the net income thereof for club purposes does not qualify for exemption under section 501(c)(7) of the Internal Revenue Code.

Santee Club v. White, 87 F. 2d 5 (1936) held that where a club engages in income producing transactions which are not a part of the club purposes, exemption will not be denied because of incidental, trivial, or nonrecurrent activities such as sales of property no longer adapted to club purpose.

In United States of America v. Fort Worth Club of Fort Worth, Texas, 345 F. 2d 52, 57 (5th Cir. 1965), a social club which derived over half of its receipts, in amounts of hundreds of thousands of dollars, from profitable outside business was not exempt from federal income taxes on ground that it was organized and operated exclusively for pleasure, recreation, and other non-profitable purposes. The court declared that for a social club to qualify for exemption under section 501(c)(7) of the Code, its outside profits must be 1) strictly incidental to club activities, not a result of an outside business, and 2) either negligible or non-recurring.

In Polish American Club, Inc. v. Commissioner, T.C. Memo 1974-207 (1974), the court decided that the club is not qualified for exemption under § 501 (c)(7) of the Code because its non-member income was substantial, recurring and that it was not operated exclusively for pleasure, recreation and other nonprofit purposes.

TAXPAYER'S POSITION

communicated that it agrees with the revocation of its tax-exempt status under IRC section 501(c)(7).

GOVERNMENT'S POSITION

Based on the examination, does not meet the qualifications for exemption under section 501(c)(7) of the code. Although was initially formed for pleasure, recreation, and other non-profitable purposes, a substantial part of its activities is not for such purposes. is engaged in unrelated business activities which do not fulfill a pleasure, recreation, or other non-profitable purpose for the stated code.

operates similarly to the organizations described in Revenue Rulings 58-589, 60-324, 65-63, 66-149, 68-638, and court case Polish American Club, Inc. v. Commissioner, which were denied exemption under Section 501(c)(7) of the Code because substantial income was received from

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non-members. regularly derives substantial income from nonmember sources, specifically from the rental of land to a for the erection and use of a : Based on the financial data provided by , such rental income is regularly derived and substantial in proportion to the total income.

For the tax years ended and , % and % respectively of total income were received from rental income of nonmembers. exceeded the % non-member threshold outlined in Public Law 94-568. Per United States of America v. Fort Worth Club of Fort Worth, rental income must be incidental to your club activities and either negligible or non-recurring. rental income is both substantial and recurring. For the year under examination and prior year, received over % of total income from rental activities in a recurring basis.

Accordingly, it is proposed that the organization's tax-exempt status be revoked effective

CONCLUSION

no longer qualifies for exemption under § 501(c)(7) of the Code as the nonmember income has exceeded the % nonmember income threshold on a continuing basis. Accordingly, the Club is not entitled to tax exemption under 501(c)(7) of the Code and its tax-exempt status should be revoked, effective

Form , U.S. Corporation Income Tax, should be filed for tax year ending 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.