



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

Date: July 2, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Release Number: 202239019  
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 explaining why your organization doesn't qualify as an organization described in Internal Revenue Code (IRC) Section 501(c)(7) for the tax periods above.

In the future, if you believe your organization qualifies for tax-exempt status and would like a determination letter from the Internal Revenue Service, you can request a determination by filing Form 1024, Application for Recognition of Exemption Under Section 501(a), or Form 1024-A, Application for Recognition of Exemption Under Section 501(c)(4) of the Internal Revenue Code, (as applicable) and paying the required user fee.

Our adverse determination as to your exempt status was made for the following reasons: You received more than 35 percent of your gross receipts from a combination of investment income and receipts from nonmembers as well as more than 15 percent of gross receipts from nonmembers.

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:

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.

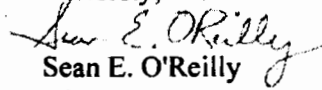
Find tax forms or publications by visiting [www.irs.gov/forms](http://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676).

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

cc:



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

**Date:**  
12/08/2020  
**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:**  
January 8, 2021

**CERTIFIED MAIL – Return Receipt Requested**

Dear \_\_\_\_\_ :

**Why you're receiving this letter**

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

**Additional information**

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

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

Sincerely,

*Sean O'Reilly by em*

Sean O' Reilly

Director, Exempt Organizations Examinations

**Enclosures:**

Form 886-A, F 4621-A

Form 6018, Publication 892, Publication 3498

Form <b>886-A</b>	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:**

**Should** \_\_\_\_\_ **continue to have self-declared exemption from tax under Internal Revenue Code (IRC) §501(c)(7) as a recreational social club or be disqualified?**

**FACTS:**

\_\_\_\_\_ was established in the late \_\_\_\_\_ and incorporated with the State of \_\_\_\_\_ in \_\_\_\_\_.

According to IRS records, the organization self-declared as a tax-exempt status as a 501(c)(7) organization in \_\_\_\_\_.

The organization has a small membership and operates out of a county building they have helped to maintain over the years. \_\_\_\_\_ have organized \_\_\_\_\_ for men and women as family hang out and \_\_\_\_\_ to enjoy themselves for recreational purposes. The organization holds \_\_\_\_\_ competitions for club members as well as members of the \_\_\_\_\_ (\_\_\_\_). \_\_\_\_\_ was required to register under \_\_\_\_\_ in the State of \_\_\_\_\_ to become a \_\_\_\_\_ club, therefore, they allow other registered members to compete in the competition.

\_\_\_\_\_ has not filed a

**Operations:**

The \_\_\_\_\_ held large \_\_\_\_\_ event and an estimate of about \_\_\_\_\_ small events. There is no record keeping for each person attending, whether they are members or nonmembers of \_\_\_\_\_. Record keeping is on a manual general ledger of mostly expenses being paid out but not the source of the income coming in. A list of \_\_\_\_\_ members where provided as being paid but not the amount. The President states each member pays \$ \_\_\_\_\_ each annually and new members pay \$ \_\_\_\_\_ for \_\_\_\_\_ year and \$ \_\_\_\_\_ each year after.

The income reported on the \_\_\_\_\_ :

- 1 Contributions, gifts, grants, and sim la amounts received .....
- 2 Program service revenue including government fees and contracts .....
- 3 Membership dues and assessments .....
- 4 Investment income.....

During the year of \_\_\_\_\_, \_\_\_\_\_ members paid membership fee in the amount of \$ \_\_\_\_\_.

The remainder of the income came from the \_\_\_\_\_ that where held by the club. The expenses listed in the \_\_\_\_\_ general ledger are as follows:

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

Trophies  
 Prizes/shirts  
 Admin  
 Supplies/ Food  
 Misc/Equip  
 Insurance  
 State fee  
 Electric  
 Repairs/cleaning  
 Postage  
     Fees  
 Payouts

**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 no part of the net earnings which inures to the benefit of any private shareholder.

IRC §512(a)(3)(A), in relevant part, provides that for certain organizations, including those described in IRC §501(c)(7), the term “unrelated business taxable income” means, in part, the gross income (excluding any exempt function income), less the allowable deductions directly connected with the production of gross income (excluding exempt function income). This section of law was added by P.L. 91-172, 1969-3 C.B. 10.

A Section 501(c)(7) organization is permitted to receive up to 35 percent of its gross from a combination of investment income and receipts from nonmembers so long as the nonmember income does not represent more than 15 percent of total receipts. See Senate Report 94-1318.

IRC §512(a)(3)(B) provides that, for purposes of IRC §512(a)(3)(A), the term “exempt function income” means the gross income from dues, fees, charges, or other 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 income is paid. Such term (exempt function income) also means all income (other than an amount equal to the gross income derived from any trade or business regularly carried on by such organization computed as if the organization were subject to paragraph (1)), which is set aside for purposes specified in Code §170(c)(4).

IRC §170(c)(4) defines deductible gifts as those that are used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
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IRC Regulations §1.512(a)-1(a) defines “unrelated business taxable income,” except as otherwise provided in §1.512(a)-2, §1.512(a)-4, or paragraph (f) of this section, as the gross income derived from any unrelated trade or business regularly carried on, less those deduction allowed by chapter 1 of the Code, but also must be directly connected with the carrying on of unrelated trade or business. Except as defined in paragraph (d)(2) of this section, to be “directly connected with” the conduct of unrelated business for purposes of Code §512, and item of deduction must have a proximate and primary relationship to the carrying on of that business. If such income is derived from multiple unrelated business activities, then the unrelated business taxable income is the aggregate of the gross income from all such activities less the aggregate of the deductions allowed with respect of all such activities.

IRC Regulations §1.512(a)-1(b) defines expenses, depreciation, and other similar items that are attributable solely to the conduct of unrelated business activities are those proximately and primarily related to that business activity. Such expenses qualify for deduction to the extent that they meet the requirements of IRC §162, Code §167, or other relevant section of the Code. Thus, the wages of personnel employed full-time in carrying on unrelated business activities are directly connected with the conduct of said activity and are deductible in computing unrelated business taxable income if they otherwise qualify under the requirements of Code §162.

IRC Regulations §1.512(a)-1(c) discusses dual use of facilities or personnel. Where facilities are used both to carry on exempt activities and to conduct unrelated trade or business activities, expenses, depreciation and similar items attributable to such facilities (as, for example, items of overhead) shall be allocated between the two uses on a reasonable basis. Similarly, where personnel are used both to carry on exempt activities and to conduct unrelated trade or business activities, expenses and similar items attributable to such personnel (as, for example, items of salary) shall be allocated between the two uses on a reasonable basis. The portion of any such item so allocated to the unrelated trade or business activity is proximately and primarily related to that business activity, and shall be allowable as a deduction in computing unrelated business taxable income in the manner and to the extent permitted by Code §162, Code §167 or other relevant provisions of the Code.

Rev. Proc. 71-17 requires that organizations described under IRC §501(c)(7) keep adequate documentation to support all income received from members or non-members. Failure to retain such adequate documentation to differentiate member and non-member income will cause the service to use the audit assumption that all income derived from such an activity is received from non-members and is therefore taxable under IRC §511.

Rev. Rul. 79-145, 1979-1 C.B. 360, states that a guest of a nonprofit social club is an individual who is a guest of a member of the club and who ordinarily does not reimburse the member for guest’s expenses. On the other hand, amounts paid to a social club by visiting members of another social club are amounts paid by nonmembers, even though both clubs are of like nature and the amounts paid are for goods, facilities, or services provided by such social club under a reciprocal arrangement with such other social club.

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Rev. Rul. 81- 69, 1981-1 C.B. 351 provides that if the sales to nonmembers isn't profit motivated a social club (exempt under Code §501(c)(7)) can't deduct the loss from sales activity from the investment income when calculating its unrelated business taxable income under Code §512, See also Portland Golf Club vs. C.I.R.

**TAXPAYER'S POSITION:**

Taxpayer's position has not been provided. The taxpayer has not yet been presented with this formal report.

**GOVERNMENT'S POSITION:**

The is not supported solely by membership fees, dues, assessments, and or revenue from member use of club facilities, as contemplated by Treasury Regs. §1.501(c)(7)-1(b). The \$ in total dues would leave the club in the negative after basic expenses of electric, insurance, and buying clay targets.

Based on the above facts and circumstances, law and rulings cited, the does not qualify for tax-exemption under IRC §501(c)(7) and should be disqualified. The proposed date of the revocation is

Form , U.S. Corporation Income Tax Return should be filed for and thereafter as long as the continues to be subject to income tax.

**ALTERNATIVE ISSUE:**

If the is to remain self-declared tax-exempt, what is its Unrelated Business Income Tax liability?

The correct amount of tax for UBIT for the tax years under examination was calculated using the organizations and manual general ledger as shown in chart exhibit.

**UBIT ALLOCATION:**



Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
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Total income	\$				
Members income	\$				
Income	\$			Total	
Expenses	\$			Nonmember	
Total	\$			Allocation	%
Expenses	Total	Allocation	Allocated		
	\$	%	\$		
Prizes Pay out	\$	%	\$		
T shirts/tickets	\$	%	\$		
Insurance	\$	%	\$		

**Government position:**

Issue 1: The income from the \_\_\_\_\_ competition is subject to UBIT based on IRC Regulations §1.512(a)-1(a) defines "unrelated business taxable income," as the gross income derived from any unrelated trade or business regularly carried on. The tax due calculations are shown below:

SubTotal		\$
Special Deduction		\$
Net		\$
Tax	%	
Tax Due		\$

Amounts paid to a social club by visiting members of another social club, are amounts paid by nonmembers, even though both clubs are of like nature and the amounts paid are for goods, facilities, or services provided by such social club under a reciprocal arrangement with such other social club.

A Section 501(c)(7) organization is permitted to receive up to 35 percent of its gross from a combination of investment income and receipts from nonmembers so long as the nonmember income does not represent more than 15 percent of total receipts. \_\_\_\_\_ would still not meet this requirement to continue to be tax exempt and file UBIT on \_\_\_\_\_.

Form \_\_\_\_\_, U.S. Corporation Income Tax Return should be filed for \_\_\_\_\_ and thereafter as long as the \_\_\_\_\_ continues to be subject to income tax.