



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

Date: July 28, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Number: **202240024**

Release Date: 10/7/2022

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, recreation, and other nonprofitable purposes and no part of the net earnings inures to the benefit of any private shareholder within the meaning of IRC Section 501 (c)(7). You received more than 35 percent of your gross receipts from a combination of investment income and receipts from non-members as well as more than 15 percent of gross receipts from non-member use of facilities.

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:

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

cc:



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

Date:
March 9, 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:

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,

Sean E. O'Reilly
Director, Exempt Organizations Examinations

Enclosures:
Form 886-A
Form 6018
Form 4621-A
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	Year/Period ended

Issue:

has failed to meet the eligibility requirements under Internal Revenue Code Section 501(c)(7) as the organization’s investment income has exceeded the limit of non-member income imposed by the Code. Because the organization has consistently exceeded the 35-percent non-member income limit; should the organization retain iEts tax-exempt status under the Internal Revenue Code 501(c)(7)?

Facts:

was organized under State Law on .
 . filed form for exemption under IRC 501(c)(7) on .
 . received Determination Letter 948 (DO/CG) on , granting the organization tax exempt status under IRC Section 501(c)(7).

primary purpose is the education of its members in the proper safe methods of and conservation, and the safe use of firearms.

maintains a property in , in . The organization’s members meet and conduct the club’s activities on this property.

. had members during the year under examination.

. has filed a Form for the tax years ending through

has filed a Form for the tax years ending through tax year ending

has no paid employees.

The Service has reviewed the Forms and Forms reporting period starting and ending

On , the organization entered into an Promissory Note agreement to sell their to , for \$ () together with the fixed rate of interest of percent per annum on the outstanding principal balance. The payment shall be due on and the Note shall be due and payable in full including any outstanding principal, any accrued interest and other charges, not later than

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

Facts (Continued):

The income received from the promissory note has been reported on their Forms and Forms for the period of through .

The organization has reported the following amounts for investment income on their books and records and on their Forms and Forms returns for the Tax Year Ending

- , Investment Income of \$ which is -percent of the total income of \$
- , Investment Income of \$ which is -percent of the total income of \$
- , Investment Income of \$ which is -percent of the total income of \$
- , Investment Income of \$ which is -percent of the total income of \$

Law:

Internal Revenue Code § 501(c)(7) – Social Clubs

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.

Treasury Regulation 1.501(c)(7)-1 Social Clubs

(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.

P.L. 94-568

Before 1976, IRC Section 501(c)(7) required a tax-exempt club to be organized and operated “exclusively” for pleasure, recreation, and other nonprofitable purposes. P.L. 94-568 amended IRC Section 501(c)(7) to require that “substantially all” of a tax-exempt club’s activities are dedicated for pleasure, recreation, and other nonprofitable purposes. The amendment was intended to allow IRC Section 501(c)(7) organizations to receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. See S. Rep. No. 94-1318 (1976). Within the 35 percent, no more than 15 percent of gross receipts should come from the general public’s use of the social club’s

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Law (Continued):

facilities or services. If an organization has outside income over the 35-percent or 15-percent limit, the organization is in jeopardy of losing their tax-exempt status.

Revenue Ruling 66-149

Rev. Rul. 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.

Adirondack League Club, Petitioner v. C.I.R. Respondent

Petitioner is a nonprofit New York membership corporation organized and operated for: (1) The preservation and conservation of the Adirondack forests and the proper protection of game and fish in the Adirondack Region. (2) The establishment and promotion of an improved system of forestry. (3) The maintenance of an ample preserve for the benefit of its members for the purpose of hunting, fishing, rest, and recreation. Petitioner lost its tax-exempt status as of 1943 upon respondent's determination that petitioner received a substantial amount of income from timber operations conducted on its property. Aside from its timber income, petitioner collected membership dues and charged fees for the facilities and services used by members and their guests. The expenses incurred in maintaining and providing the facilities and services exceeded the membership dues and fees charged for them and petitioner offset the excess expenses against the timber income with the result that petitioner reported no taxable income during the years in issue. Held, to the extent the expenses incurred in maintaining and providing facilities and services for members exceeded the income received therefrom, they are not deductible under sec. 162(a), since they did not arise from the 'carrying on of any trade or business' within the intendment of that section.

Coastal Club, Inc., 43 T.C. 783 (1965)

By transactions entered into for profit petitioner, a corporation, organized as a duck-hunting club, repeatedly leased its property for the exploration for and production of oil and gas. During the years in issue the oil and gas income predominantly exceeded the amounts received from its members in the form of dues, and service and guest charges, and supplied from in excess of two-thirds to as much as four-fifths of the amounts required and expended for operations, repairs, maintenance, and improvements. And not only that but through such income plus the interest from U.S. Government bonds in which the oil and gas income remaining after payment of club costs had been invested, petitioner built its accumulated surplus. It was held, that respondent did not err in his determination that petitioner, during the taxable years, was not exempt from tax under section 501(c)(7) of the Internal Revenue Code. It was further held, that respondent did not abuse his discretion in revoking his prior ruling of exemption.

West Side Tennis Club v. Commissioner (111 F.2d 6)

The court determined that more than an insubstantial amount of income received from non-members would jeopardize the tax-exempt status of an organization described in IRC § 501 (c)(7).

Taxpayer Position:

The taxpayer has not provided a position at this time.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Government Position:

investment income has consistently exceeded the -percent non-member income limit imposed by the Code. The organization entered into a Promissory Note agreement to sell their / rights to , with the first payment due on and continuing until . The organization has been reporting the investment income on their Forms and

The organization has consistently exceeded the 35-percent limit imposed under the Code. The Service has provided the information reported on the organization’s returns for the periods starting on and ending on

Below are the calculations of the Percentage of Total Revenue for all income sources for

Tax Year End						
Program Service Revenue	\$		\$		\$	
Percent of Total Revenue		%		%		%
Investment Income						
Percent of Total Revenue		%		%		%
Other Income						
Percent of Total Revenue		%		%		%
Total Revenue	\$		\$		\$	

Using the information obtained from the organization’s records and the information previously reported on filed returns, the Investment Income as a percentage of Total Revenue, the organization has consistently exceeded the 35-percent non-member income limit imposed by the Internal Revenue Code.

Social clubs are permitted to receive income from non-member sources, but when that income exceeds 35-percent, the organization’s exemption is in jeopardy of being revoked. As the organization has consistently exceeded the limits imposed by the Internal Revenue Code, the Treasury Regulations, and further specified in Public Law 94-568. Also, as per the terms of the promissory note agreement, the investment income will continue until

As the organization has egregiously exceeded the non-member limits imposed by the code there is no way that the organization can retain its tax-exempt status. The organization has reported non-member income that has averaged approximately percent of their total income during the period examined.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Conclusion:

The _____ action of entering into a promissory note agreement has led to the generation of non-member investment income. The income generated on the sale of the _____ rights, as evidenced on the promissory note, made between the organization and _____, has caused the organization to consistently exceed the 35-percent non-member income limit imposed by the Internal Revenue Code.

This has led to the determination that the organization is no longer qualified under Internal Revenue Code Section 501(c)(7), and the organization's tax-exempt status must be revoked.