



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

Date: October 26, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Release Number: 202243010

Release Date: 10/28/2022

UIL Code: 501.07-00

Person to contact:

Name:

ID number:

Telephone:

Fax:

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

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 the pleasure and recreation of your members or for other nonprofitable purposes, and that no part of your net earnings inures to the benefit of any private shareholder within the meaning of IRC Section 501(c)(7). You have regularly received a substantial portion of your income from nonmember sources, and thus, you are no longer qualified for exemption under IRC Section 501(c)(7).

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



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

Date:
September 1, 2020
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:
ID number:
Telephone:
Fax:

Manager's contact information:

Name:
ID number:
Telephone:
Response due date:
October 1, 2020

CERTIFIED MAIL – Return Receipt Requested

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,

Peter Jensen for

Sean O'Reilly

Director, Exempt Organizations Examinations

Enclosures:
Form 886-A
Form 6018

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:

Whether the tax-exempt status of _____, an IRC Section 501(c)(7) social club, should be revoked due to excessive non-member income.

FACTS:

The _____ Secretary of State website states that _____ (“_____”) incorporated in _____ on _____; its principal office is in _____, _____; and _____ is active and in good standing with the state. The fiscal year ending _____, Form _____ does not list an exempt purpose of the organization. Per _____ Articles of Incorporation, the purpose of the organization is the “_____”.

In _____, _____ applied for tax-exemption status under Internal Revenue Code subsection 501(c)(5). In a letter dated _____, _____ was precluded from tax exemption under subsection 501(c)(5) because _____ are not considered to be _____ used in agriculture (Rev. Rul. 57-588). Per Letter _____ dated _____, the IRS granted _____ tax-exempt status under subsection 501(c)(7).

On _____, Internal Revenue Agent _____ (“the Agent”) interviewed the Treasurer, who explained _____ membership requirements. Membership dues are collected at General meetings, paid by cash or check.

During the interview, the Treasurer confirmed that _____ was not aware about recordkeeping requirements as outlined in Revenue Procedure 71-17. The Treasurer said that _____ does not separate income from members and non-members during _____ shows.

On _____, the Agent conducted an examination of _____ books and records. The scope of the examination was to schedule and analyze _____ records to determine if _____ records are in compliance with the record keeping requirements of Revenue Procedure 71-17; and, to determine if _____ is organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes within the meaning of IRC section 501(c)(7) and Public Law 94-568 (Senate Report 94-1318).

For the fiscal year ending _____, _____ timely filed Forms _____ and _____. On Form _____, Part I, line _____, program service revenues total \$ _____, from _____ shows \$ _____, training classes \$ _____, and _____ matches \$ _____. On Form _____ reported investment income of \$ _____ and took the \$ _____ specific deduction. On Form _____, line _____, unrelated business taxable income was \$ _____ with an unrelated business income tax of \$ _____. _____ paid the tax with the return.

The sources of _____ income are membership dues, _____ shows, training classes, _____ matches, other events (silent auction, accessories sales), and interest income.

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

does not own a building. facilities for their activities:
, for the show on & , and & , ;
, for the show on &
and .

The match events are conducted at , , ,
for the match on and at , , ,
, for the match on , , ,
evening training classes occur at the previously mentioned .

Annual dues for regular club members are \$, associate members are \$, and junior members are \$.
Members also pay a \$ initiation fee. also pay the same dues. Including , there were
members in the fiscal year ending and members in the next fiscal year. people are
life members and no longer pay dues. collected and claimed \$ in membership dues for fiscal
year .

In response to Information Document Request (IDR) # 2 provided documents from
Shows, .

During the initial interview, , Treasurer (“the Treasurer”), said that shows are
open to the public. Catalogues provided by confirm this statement. The shows are
most significant activity, held in and .

Shows are open to any recognized by . The championship is determined
based on the standards for the , the best of the selected by the judge. There are different
groups: The , the , the , the , the , the , the , the , the
, the . One winner is selected in each group. compete against each
other, so by the end of the Show winners are selected.

hires a , Shows, , licensed by the , to
manage the shows. The handles all funds and supplies, receives the money from entries,
deducts the expenses, and then issues checks to .

is neither a member of nor an officer, employee or donor/grantor of . For fiscal
year ending issued to checks, totaling \$.
The checks are listed in Table 1 below.

general ledger list these as undeposited funds.

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

Table 1 Payments received from _____, for _____ Shows in _____ and _____

Bank	Date	Amount	Transaction	Description	Received from
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
Total		\$			
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
		\$	Payment	Undeposited Funds (Funds received, but not yet deposited to a bank account)	
Total		\$			

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

Per the _____ Shows _____ invoices, income from _____ shows entries in _____ totaled \$ _____, matching _____ profit & loss statement's account (entry fees less expenses); the company's total deductions amounted to \$ _____, for a net income of \$ _____.

During the interview, the Treasurer mentioned that general public is allowed to attend _____ Shows. _____ does not keep records and does not separate revenues received from members and non-members attending the _____ Shows. The analysis of the catalogues published for the _____ Shows reveals that the majority of the participants are not members of _____. Per interview, Training classes are designated for members but still anyone can take training classes for his/her _____.

_____ books and records reported income from following sources for the years ending _____ and _____.

Table Sources of income for the years ending _____ and _____

Sources of income	Member / Non-member	Amount
Membership dues	Member	\$ _____
Shows	Non-member	\$ _____
Training Classes	Member	\$ _____
Matches	Member	\$ _____
	Member	\$ _____
Silent Auction	Member	\$ _____
Sales	Member	\$ _____
Income P&L Statement for the fiscal year		\$ _____
Membership dues	Member	\$ _____
Shows	Non-member	\$ _____
Training Classes	Member	\$ _____
Matches	Member	\$ _____
	Member	\$ _____
Silent Auction	Member	\$ _____
Sales	Member	\$ _____
Income per P&L Statement for the fiscal year		\$ _____

The Profit & Loss Statement for the fiscal year _____ reports total income of \$ _____, including investment income of \$ _____. This matches the total revenue income on Form _____, line 9.

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

Total expenses on Form , line , for licenses, rent, utilities, awards/promotions, insurance, show direct expenses, etc. totaled \$; Direct show expenses were \$.

Total expenses on Profit & Loss statement for were \$ with expenses for Shows of \$.

Since the non-member income from exceeded the threshold for allowable non-member income for 501(c)(7) organizations, the audit was extended to the next fiscal year .

In response to IDR # 0003 the Organization provided the requested documents: books, bank statements, membership list, records from for the fiscal year .

The Agent conducted an examination of books and records and reconciled them to the Form for the year ending .

For the fiscal year ending , timely filed Forms and . On Form , Part I, line , program service revenues total \$, from shows \$, training classes \$, and matches \$. On Form reported investment income of \$ and took the \$ specific deduction. On Form , line , unrelated business taxable income was \$ with an unrelated business income tax of \$. paid almost at the same time as filed the return.

For fiscal year ending issued to checks, totaling \$. The checks are listed in Table 1 above.

Per the Shows invoices, income from shows entries in totaled \$, matching 's profit & loss statement's account (entry fees less expenses); The company's total deductions amounted to \$, for a net income of \$.

collected and claimed \$ in membership dues for the fiscal year .

The sources of income for the year ending are indicated in Table 2.

Total income on Profit & Loss Statement for the fiscal year includes investment income of \$ and equals to \$. It matches the total revenue income on Form , line 9.

Total expenses on Form , line 17, for licenses, rent, utilities, awards/promotions, insurance, show direct expenses, etc. totaled \$; Direct show expenses were \$.

Total expenses on Profit & Loss statement for equal \$ with expenses for Shows of \$.

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

Listed below are the amounts reported on Form _____ for the fiscal years of _____ through _____.

Table 3 Non-member income percentage _____ years

Reporting Year	Total Income ¹	Total nonmember income ²	Nonmember income % of total income
	\$ _____	\$ _____	% _____
	\$ _____	\$ _____	% _____
	\$ _____	\$ _____	% _____
	\$ _____	\$ _____	% _____

Footnotes:

1. Per Form _____, Part I, line 7a
2. Per examination or Form _____, Part V, line 10b

LAW:

Section 501(c)(7) of the Internal Revenue Code (the Code) provides for the exemption from federal income tax 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.

Treasury Regulation Section 1.501(c)(7)-1(a) states that exemption provided by Section 501(a) of the Code for organizations described in Section 501(c)(7) of the Code 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 inure 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.

Treasury Regulation Section 1.501(c)(7)-1(b) states 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 exemption under Section 501(a) of the Code. Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that _____ is engaging in business and is not being operated exclusively for pleasure, recreation, or social purpose. However, an incidental sale of property will not deprive a club of its exemption.

The Senate Report 94-1318 to Public Law 94-568, 1976-2 C.B. 896, provides that a social club may receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership

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

without losing exemption. Within this 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 a club exempt from taxation described in Section 501(c)(7) is permitted to receive up to 35 percent of its gross receipts from a combination of investment income and receipts from non-members so long as the latter do not represent more than 15 percent of total receipts.

Revenue rulings:

Revenue Ruling 66-149, 1966-1 C.B. 146, held that a social club is not exempt from Federal income tax as an organization described in Section 501(c)(7) of the Internal Revenue Code of 1954 where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments which it owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for

Revenue Ruling 69-219, 1969-1 C.B. 153, held that a social club that regularly holds its golf course open to the general public and charges established green fees that are used for maintenance and improvement of club facilities is not exemption under Section 501(c)(7) of the Code.

Revenue Ruling 60-324, 1960-2 C.B. 173, held that A social club which has been granted exemption from Federal income tax under Section 501(c)(7) of the Code of 1954 may lose its exemption if it makes its club facilities available to the general public on a regular, recurring, basis since it may then no longer be considered to be organized and operated exclusively for its exempt purpose.

Revenue Ruling 67-428, 1967-2 C.B. 204, held that a federation of clubs does not qualify for exemption from Federal income tax under section 501 (c) (7) of the Internal Revenue Code of 1954.

Revenue Ruling 58-589, 1958-2 C.B. 266, held that a social club must establish (1) that it is a club both organized and operated exclusively for pleasure, recreation and other nonprofitable purposes. To meet the first requirement, there must be an established membership of individuals, personal contracts and fellowship. A commingling of the members must play a material part in the life of the organization.

Court cases:

Pittsburgh Press Club v. USA, 536 F.2d 572, (1976) the Court held that while the reports mandate the application of a "facts and circumstances test" in the event that gross receipts from nonmember and/or investment income reach the prohibited levels, they do not specify any of the relevant facts and circumstances that should be considered. However, the Court of Appeals in this case has indicated some factors to consider in determining exempt status.

Factors to consider in applying this test include:

- The actual percentage of nonmember receipts and/or investment income.

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

- The frequency of nonmember's use of club facilities. (An unusual or single event (that is, non-recurrent on a year to year basis) that generates all the nonmember income should be viewed more favorably than nonmember income arising from frequent use by nonmembers).
- The number of years the percentage has been exceeded. (The record over a period of years is also relevant. The high percentage in one year, with the other years being within the permitted levels, should be viewed more favorably to the organization than a consistent pattern of exceeding the limits, even by relatively small amounts).
- The purposes for which the club's facilities were made available to nonmembers.
- Whether the nonmember income generates net profits for the organization. Profits derived from nonmembers, unless set aside, subsidize the club's activities for members and result in inurement within the meaning of IRC 501(c)(7).

In *Polish American Club Inc v. Commissioner* 33 T.C.M 925 (1974) the Court held that making club facilities available to the general public, for a fee, represented a substantial activity disqualifying the club from exemption under Section 501(c)(7) of the Code.

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 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.

Revenue procedures:

Revenue. Procedure. 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

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

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;
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; and,
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.

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

GOVERNMENT'S POSITION/ANALYSIS:

The Pittsburgh Press Club v. USA court case holds that when nonmember income reaches a prohibited level the following facts and circumstances should be considered:

- The frequency of nonmember's use of club facilities. (An unusual or single event (that is, non-recurrent on a year to year basis) that generates all the nonmember income should be viewed more favorably than nonmember income arising from frequent use by nonmembers).
- The number of years the percentage has been exceeded. (The record over a period of years is also relevant. The high percentage in one year, with the other years being within the permitted levels, should be viewed more favorably to the organization than a consistent pattern of exceeding the limits, even by relatively small amounts).
- The purposes for which the club's facilities were made available to nonmembers.
- Whether the nonmember income generates net profits for the organization. Profits derived from nonmembers, unless set aside, subsidize the club's activities for members and result in inurement within the meaning of IRC 501(c)(7).

Based upon the above facts, activities, which derive gross receipts primarily from nonmembers, are substantial and recurring. Therefore, does not qualify for exemption as a social club described in Section 501(c)(7) of the Code; Treasury Regulation Section 1.501(c)(7)-1(a); and, Treasury Regulation Section 1.501(c)(7)-1(b) as is not organized and operated exclusively for pleasure, recreation, and other nonprofit purposes.

Revenue Rulings 66-149, 69-219, and, 60-324 support the position that a social club described in Section 501(c)(7) of the Code which regularly derives a substantial part of its income from nonmember sources is not exempt from federal income tax.

Revenue Procedure 71-17 (Rev. Proc. 71-17) requires Section 501(c)(7) organizations to maintain adequate records to substantiate the gross receipts derived from nonmembers. did not maintain such records.

The payments received from are non-member income since is neither a member of the club nor an officer, employee, or donor/grantor of

The Agent found that the income from nonmember exceed the allowed percentage of nonmember gross receipts per Public Law 94-568; doesn't keep detailed records of member and nonmember income. accounting also doesn't include detail information of entry fees of participants for shows.

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

The Senate Report 94-1318 to Public Law 94-568, 1976-2 C.B. 896, quantitatively defines substantial amounts of income from nonmembers. The report supports the position that a social club, which is open to the general public, is permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their tax-exempt status. It is also intended that within this 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. It appears from calendar year to activities exceeded these limitations.

In *Polish American Club Inc v. Commissioner*, the courts' decision supports the position that a social club described in Section 501(c)(7) of the Code which regularly derives a substantial part of its income from nonmember sources, on a recurring basis, is not exempt from Federal income tax.

TAXPAYER'S POSITION

The taxpayer has not yet been presented with this formal report but has communicated that it believes it is tax-exempt.

CONCLUSION

no longer qualifies for exemption under Section 501(c)(7) of the Code as its nonmember income has exceeded the 35% non-member income limit, and /or 15% income from non-member use of facilities limit set by Congress and the courts. Therefore, we propose to revoke its exempt status under Section 501(c)(7) of the Code for the year ended and