



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

Date: December 7, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Release Number: 202243014

Release Date: 10/28/2022

UIL Code: 501.07-00

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 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 no longer qualify for exemption under IRC Section 501(c)(7), as your non-member income has exceeded the 35% non-member income limit set by Public Law 94-568.

Also, in response to your request for consideration of relief under IRC Section 7805(b), which was granted by Director, Exempt Organizations Examinations on _____, the revocation of your tax-exempt status is effective

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.

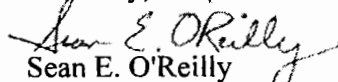
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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:
November 9, 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:
December 9, 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.

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
Publications 892 & 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 |

REVISED TO REFLECT RELIEF UNDER SECTION 7805(b)

ISSUE

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

FACTS

_____ was incorporated in the _____ of _____ on _____. It submitted Form _____, Application for Recognition of Exemption under Section 501(a), and received exemption under section 501(c)(7) with effective date _____.

In article 3 of the EO's Articles of Incorporation and on Form _____ its stated purpose is "_____".

The EO's _____ response to Information Document Request (IDR) #1, regarding membership information states that there exists "only one class of members, all being living descendants of _____". This currently comprises _____ individuals across _____. There is no member handbook and there is no mention of any organized activity or commingling in the organization's By-Laws or newsletter. In addition, there is no schedule of membership dues listed in the EO's By-Laws.

The EO does not list a website on its _____ return, its By-Laws or its newsletter. In addition, no other web or related social media accounts are mentioned. A simple online search does not yield any results that suggest that the organization maintains an online presence.

Note _____ of the EO's Financial Statements submitted with Form _____, states: "Revenues are comprised primarily of Member Dues and occasional Member Contributions. Member dues are meant to approximate _____ and _____ taxes assessed annually. Member Contributions are made periodically for maintenance and other purposes".

According to the EO's By-Laws, "Expenses" section, items _____ and _____ state: "to the extent that _____ has adequate funds, all expenses will be paid using such funds. To the extent that _____ does not have adequate funds, all expenses having to do with the property are to be shared equally between the families involved."

In response to IDR #1 issued during the audit seeking complete details for member activities in the year under audit, the EO stated: "Various _____ and _____ activities. Exact dates and participants are not maintained".

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No member dues were reported on the organization's return for years _____ and _____. The EO's response to IDR #1 regarding member dues states: "no member dues were collected in _____."

In previous years, member dues were paid to cover expenses of the property such as taxes and maintenance".

The EO entered into a _____-year mineral Lease Agreement with _____ on _____ . It received a Bonus Consideration and rental payment of \$ _____ in _____ which the EO reported on Part I, Line 4 (_____) of its _____ return and Part I, Line (_____) on its _____ return. The EO did not report on Schedule _____ of Form _____ any income as a set aside. In _____ , the EO also reported other investment income of \$ _____ from _____ for a total of \$ _____. Inspection of the EO's _____ return shows total investment income of \$ _____ comprising Other Investment Income from _____.

Section _____, *Payments to Lessor*, of the Lease Agreement with _____, stipulates that additional rental and royalty payments will be made to the EO according to certain conditions. The EO's _____ newsletter which was included with EO's response to IDR#1, acknowledges that the EO has received a letter from _____ describing their activity and states: "

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

| Year ending | | |
|---------------------------------------|----------|----------|
| Member Dues | \$ _____ | \$ _____ |
| Investment Income | \$ _____ | \$ _____ |
| Total Revenue (line 9 of Form _____) | \$ _____ | \$ _____ |
| Percent of Total Revenue | % _____ | % _____ |

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

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|-------------------|---|----------------------------|
| Form 886-A | Department of the Treasury – Internal Revenue Service Explanations of Items | Schedule number or exhibit |
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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 nonprofitable 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 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.

Rev. Rul. 69-220, 1969-1 C.B. 154., describes a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses and to improve and expand its facilities is not exempt under Code section 501(c)(7). The organization was precluded from exemption because it regularly engaged in a business ordinarily carried on for profit and because its net income from this activity inured to its membership in the form of improved and expanded facilities.

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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).

The sale of mineral rights or income derived from gas or oil extractions will result in unrelated business taxable income to a social club. Such income is not exempt function income as defined in section 512(a)(3)(B). The special non-recognition provisions of section 512(a)(3)(D) would not apply. Further, if a social club were to lease mineral rights and were to receive royalty income from such lease, the modification under section 512(b)(2) to exclude such income from tax is not available to a social club.

TAXPAYER'S POSITION

The taxpayer did not omit or misstate material information in the application for exemption or operate in a manner materially different from that originally represented in their application for recognition of exemption. The taxpayer clearly noted the organization had entered into an lease with , disclosed the \$ signing bonus, and included a copy of the lease with their application for exemption. The IRS approved the exemption application with the knowledge the taxpayer would receive the one-time bonus, well in excess of the % investment income threshold. The taxpayer relied on the determination letter in filing its and tax returns and believes that it would be inequitable to retroactively revoke the taxpayer's information. The taxpayer requests relief from retroactive revocation of its tax-exempt status.

GOVERNMENT'S POSITION

An organization exempt from federal income taxes as described in IRC section 501(c)(7) 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 percent (%) of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. Within this % amount, not more than fifteen percent (%) 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 organization 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.

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Rev. Rul. 66-149 support 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 as a result, income from non-member sources is used to defray membership costs resulting in inurement to members.

Rev. Rul. 69-220 held a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses is not exempt under Section 501 (c) (7) of the Code. The organization entered into a lease agreement with the purpose to generate income, decreasing the amounts needed to be contributed by its members. This income is supporting its operations, and as it is decreasing the obligations of funds required to be paid by members, it is inuring to their benefit.

The organization reported investment income that composed % of their gross income in . Inspection of the organization’s return shows that investment income was, again, % of its gross income. The organization exceeded the % non-member threshold as outlined in Public Law 94-568. Moreover, the investment income defrays the ongoing operating cost and inures to the benefit of members.

Accordingly, it is proposed that the organization’s tax-exempt status be revoked.

CONCLUSION

no longer qualifies for exemption under § 501(c)(7) of the Code as your nonmember income has exceeded the % investment income threshold on a continuing basis.

Accordingly, is not entitled to tax exemption under 501(c)(7) of the Code and its tax-exempt status should be revoked. The request for relief under IRC Section 7805(b) has been granted and, therefore, the effective date of revocation is

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

As a reminder, you have the right to file a protest if you disagree with this determination.

If you agree with this conclusion, please sign and return the enclosed Form 6018 by the indicated response due date.