



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

Date:
01/14/2022
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Number: **202244014**
Release Date: 11/4/2022

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), effective . Your determination letter dated , is revoked.

Our adverse determination as to your exempt status was made for the following reasons: You have not established that you are operated substantially for pleasure and recreation of your members or other nonprofitable purposes and no part of the earnings inures to the benefit of any private shareholder within the meaning of IRC Section 501(c)(7). You sole activity is generating investment income. 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 for years ending and

Organizations that are not exempt under IRC Section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms and information please visit www.irs.gov.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of IRC Section 7428 in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims or 3) the United States District Court for the District of Columbia.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. You may write to the courts at the following addresses:

United States Tax Court 400 Second Street, NW Washington, DC 20217	U.S. Court of Federal Claims 717 Madison Place, NW Washington, DC 20439	U.S. District Court for the District of Columbia 333 Constitution Ave., N.W. Washington, DC 20001
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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:

Internal Revenue Service
Taxpayer Advocate Office

Or call TAS at 877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to taxpayeradvocate.irs.gov. Do not send your federal court pleading to the TAS address listed above. Use the applicable federal court address provided earlier in the letter. Contacting TAS does not extend the time to file an action for declaratory judgment.

Where you can find more information

Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

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

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

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

Keep the original letter for your records.

Sincerely,



Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892



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

Date: 6-7-2021

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:

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.

[DELETE PARAGRAPH BELOW IF NOT APPLICABLE – Only Applicable to Group Exemption Parent Organizations]

[Revenue Procedure 80-27 requires that, in the event your tax-exempt status is revoked, your group exemption will also be revoked. If that occurs, none of your subordinates will be able to rely on the group ruling for tax-exempt status. You should notify each subordinate of this proposed action.]

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 886-A (May 2017)	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

Issue

Should tax-exempt status under Internal Revenue code (IRC) section 501(c)(7) be revoked?

Facts

was incorporated in of in under the name . Article II of the Articles of Incorporation state specific purpose is to own and maintain a building for the accommodation of the and other charitable and social bodies of like character, and for the preservation and dissemination of the principles of the .

Supplemental Articles of Incorporation were signed in of in changing the organization's name from to . Article II states the specific purpose is buying, owning, and leasing all such real and personal property as may be required or desired by for establishing club rooms, reading room, library and gymnasium for the purpose of carrying out the activities of the .

Amended Articles of Incorporation were signed in of in changing the organization's name from to .

The IRS issued Form 6975 dated , granting exemption from Federal income tax under the provisions of Section 101(14) of the Internal Revenue Code.

submitted Form 1026, *Exemption Affidavit*, to the Internal Revenue Service (IRS) under IRC Section 101(14), *Corporations Holding Title to Property for Exempt Organizations*. described its purpose is to acquire, own, or lease real and personal property as may be required or desired by . Form 1026 described income as being derived from the transfer of bonds, or cash from obtained from dues, assessments, social activities, and interest on bonds held in the building fund.

Amended Articles of Incorporation were signed in of in changing the organization's name from to .

On , the IRS issued Form 1937-A reconsidering the ruling dated , issued in the name of , in which exemption was granted under Section 101(14) of the 1939 Internal Revenue Code, which corresponds to Section 501(c)(2) of the 1954 Code. Based on the results of the examination of Form for the fiscal year ended , it was determined that the activities of operating a bar and bingo game for members were more in the nature of a social club. The primary activities did not meet the requirements of exemption under Section 501(c)(2) of the Internal Revenue Code but they do fall within the provisions for Section 501(c)(7) of the Code. The ruling dated was modified accordingly.

Form 886-A (May 2017)	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

Form was examined for the tax period ending . During the examination, the revenue agent noted that the sole activity was the collection of rents from the building owned by the no longer operated the bar or bingo activities reported in the prior examination. The agent determined that the organization would be suited better under Section 501(c)(2). On , the IRS issued Letter 948 recognizing as a tax-exempt organization under IRC 501(c)(2).

For the tax years ended , and , Forms and were examined. During the examination, delinquent Forms for the years ended and were secured during the examination due to having unrelated business gross income of \$ or more. A letter from the IRS dated , stated no change to exemption status was necessary, and advised that all nonmember and investment income receipts are regarded to be unrelated business income in accordance with Section 512(a)(3). Form 6018, *Consent to Proposed Adverse Action*, modified exemption status from Section 501(c)(2) to 501(c)(7), effective

filed Form , for the year ending on . On both Forms , stated its mission is charity, unity, fraternity, and patriotism. Use of investment income and proceeds from the sale of their building to donate to the was listed as a significant activity. The following table lists the financial data that appears on and Forms :

Investment Income	\$	\$
Other Revenue		
Total Revenue	\$	\$
Grants and similar amounts	\$	\$
Other Expenses	\$	\$
Total Expenses	\$	\$
Assets	\$	\$
Liabilities	\$	\$

In , the IRS began an examination of books and records for period ending because reported non-member income in excess of 15% of total gross receipts on the Form .

On , Revenue Agents conducted an initial interview with Power of Attorney and Treasurer . The following information was provided by them during the interview.

Form 886-A (May 2017)	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

They stated that the organization was previously established to hold title to a former building. All members of _____, around _____ people, are members of the _____ fraternal organization. The _____ chapter was not able to hold title to the building due to their parent organization’s rules against owning property. During an examination in the _____, the organization’s exemption status changed from Section 501(c)(2) to Section(c)(7) because at that time they had a lounge and bingo activities.

_____ sole activity currently is providing money to their related organization, _____, for charitable purposes. They sold their previous building and generate investment income from the proceeds of the sale.

Revenue Agent _____ explained to the representatives that provisions under Section 501(c)(7) state that nonmember income, including investment income, may not exceed 35%. He also stated that since there are no other activities, specifically social activities, the organization is not meeting the commingling requirement under Section 501(c)(7). Revenue Agent _____ explained that these are grounds for revocation, and due to tax law changes, we are no longer able to modify exemptions during an examination.

_____ representative stated they understand the reasoning for revocation but asked about remedies to tax exemption. He expressed interest in reapplying under Section 501(c)(2). Revenue Agent _____ explained that IRS agents are not permitted to suggest applying for a certain tax exemption, but they may attempt to apply for another Section of the Internal Revenue Code if they wished to remain tax exempt.

Law

IRC Section 501(c)(7) states in part the federal tax exemption of 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 of which inures to the benefit of any private shareholder.

IRC section 512(a)(3)(B) provides in part that 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 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.

Federal Tax Regulations (Regulations) Section 1.501(c)(7)-1(a) states in part that the exemption criteria in IRC section 501(c)(7) 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.

Revenue Ruling 58-589, 1985-2, C.B. 266 describes in part that a club must have an established membership of individuals, personal contacts, and fellowship to qualify for tax exemption under IRC 501(c)(7). A commingling of the members must play a material part in the life of the section 501(c)(7) organization.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Revenue Ruling 60-324, 1960-2 C.B. 173 details in part an organization that was denied tax exemption under Code section 501(c)(7) due to having between _____ % of income derived from nonmember sources.

Public Law (P.L.) 94-568 amended IRC Section 501(c)(7) to allow those organizations to receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. 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 facilities or services. If an organization has outside income over the 35-percent or 15-percent limit, the facts and circumstances should be considered to determine whether the organization qualifies for exempt status.

Taxpayer's Position

The organization agrees with the revocation of their exemption under Section 501(c)(7). They wish to reapply under Section(c)(2) after the examination concludes.

Government's Position

_____ does not qualify to be recognized as a tax-exempt organization under IRC 501(c)(7) because it does not have commingling activities and exceeds the 35% limitation of nonmember income.

IRC 501(c)(7) provides exemption for clubs of pleasure, recreation, or similar purposes. Revenue Ruling 58-589 emphasizes that an organization described under IRC 501(c)(7) must have an established membership, and that a commingling of members must play an essential part of the life of the organization.

_____ sole activity is generating investment income to provide to their related chapter. There are no social activities, therefore they fail the requirement for commingling amongst members under IRC 501(c)(7).

P.L. 94-568 provides that an IRC 501(c)(7) organization receive no more than 35 percent of its gross receipts from sources outside its membership, and no more than 15 percent of gross receipts from nonmember sources. Further, if an organization cannot meet the 35- or 15-percent limitations, a facts and circumstances test should be applied to determine the eligibility of an organization for exemption under IRC 501(c)(7).

_____ only source of revenue is investment income; therefore, all of its income is from nonmember sources. Since _____ has failed the 35 percent income limitation, the facts and circumstances should be taken into consideration. However, the facts and circumstances do not indicate _____ is a social club under IRC 501(c)(7): there are no social activities, just the generation investment income.

Conclusion

_____ does not qualify for tax-exempt recognition under IRC 501(c)(7) and should be denied for the years ended _____ and _____. The organization is liable for filing Form 1120 for the years _____ and _____.