



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

**Date:**  
December 15, 2021  
**Taxpayer ID number:**

**Form:**  
  
**Tax periods ended:**

**Number: 202244015**  
**Release Date: 11/4/2022**

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

**UIL: 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 and recreation of your members or other non-profit purposes and that no part of the earnings inures to the benefit of any private shareholder within the meaning of IRC Section 501(c)(7). Your nonmember income has exceeded the 15% and 35% nonmember threshold for tax years ending \_\_\_\_\_ and \_\_\_\_\_, as outlined in Public Law 94-568.

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

**What you must do if you disagree with this determination**

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

**How to file your action for declaratory judgment**

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

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

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

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

**Where you can find more information**

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

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

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

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

Keep the original letter for your records.

Sincerely,



Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892

cc:



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

**Date:**  
July 2, 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**

**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](http://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](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676).

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

Sincerely,

Sean E. O'Reilly  
Director, Exempt Organizations  
Examinations

Enclosures:  
Form 886-A  
Form 6018  
Publication 892  
Publication 3498

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

**ISSUE**

Whether the exempt organization continues to qualify for exemption under IRC (IRC) § 501(c)(7)?

**FACTS**

is exempt as an organization described in IRC § 501(c)(7) to provide social, recreational, and other activities to its members. The benefits provided to the members include, but are not limited to, the following activities: meeting of of the organization that used to provide housing to member at the of campus.

The specific and primary purpose of the Incorporation, is: , per its' Articles of

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And as the purpose was amended with the State of as follows"

"2. PURPOSE. The corporation is formed exclusively for pleasure, recreation and other nonprofitable purposes, within the meaning of § 501(c)(7) of the Internal Revenue Code of 1986, as amended ("IRC"), including for such purposes the making of distributions to other organizations that qualify as exempt organizations under JRC § 501(c)(7). Notwithstanding any other provision of these Articles, the corporation shall not carry on any activities not permitted to be carried on by a corporation exempt from federal income tax under I.R.C § 501(c)(7)."

has a meeting of its board of directors and invited advisors in the spring, as well as, a meeting of the previous in the fall. Where the meeting is for the social commingling of members in restaurants.

The organization reported the following sources and amounts of revenue on Forms for the periods ending , for years , and :

While reviewing the general ledger, income statement, minutes of meetings, as well as other internal documents provided by the organization, such as a brokerage account, it has been noted that the organization exceeded the percentage that can come from non-member income. The nonmember income has been recorded in the information returns and the brokerage account statements for the calendar years of and :

There were no accounting records provided. Just the brokerage monthly or bi-monthly statements. There were no receipts provided to back up the expenses on the group gatherings. During the interview the organization's treasurer just said that the reimbursements were referenced in the brokerage account where the treasurer and the president can write checks. The treasurer explained that he paid with his personal credit card at the restaurants for convenience and then got reimbursements.

Based on conducting the analysis of gross receipts, it has been noted that the organization received % and % from non-members during the tax years under examination, during tax years ending and , respectively.

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The organization has also failed to file Form \_\_\_\_\_ and failed to pay taxes for this income for the \_\_\_\_\_ years under examination and the \_\_\_\_\_ years reviewed.

**LAW**

IRC § 501(c)(7) exempts from federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and not part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7) of the Regulations provides that, in general, the exemption extends to social and recreation clubs supported solely by membership fees, dues and assessments. However, a club that has a brokerage account with stock market investments has to meet the nonmember gross receipts or income limitations set by Congress which is a maximum of 35% off nonmember gross receipts and since the organization does not charge any membership dues it does not fulfill the requirements and/or limitations for 501(c)(7) organizations. The organization does seem to have activities operating for pleasure, recreation and other non-profitable purposes such as having \_\_\_\_\_ annual meeting for board members and \_\_\_\_\_ annual meeting for general members. Those are the only \_\_\_\_\_ activities the group has.

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 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.

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As to income from investments, a social club is not exempt from Federal income tax under Section 501(c)(7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as dividends and interest on investments that it owns. However, the right of a social club to exemption 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 clubhouse. See Rev. Rul. 66-149, 1966-1 C.B. 146. Section 501(c)(7) changed from “operated exclusively for” to “substantially all” in 1976. Consider this ruling in the “substantially all” context.

**TAXPAYER’S POSITION**

Taxpayer’s position has not been provided.

**GOVERNMENT’S POSITION**

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.

The organization has exceeded the 15% and 35% non-member gross receipts thresholds as outlined in Public Law 94-568, on a recurring basis during tax years ending and

The income the organization receives all comes from investments in a brokerage account from a large legal settlement received in . The organization later took that money and opened a account. The organization purchases, holds and sells stocks on a continuous basis through that account. And has held stocks in , and various international . The organization also has failed to file Form and failed to pay taxes on such income.

Accordingly, it is proposed that the effective tax-exempt status be revoked

**CONCLUSION**

no longer qualifies for exemption under § 501(c)(7) of the Code as the nonmember income has exceeded the 15% and even the 35% nonmember thresholds on a continuing basis. has failed to file forms and failed to pay taxes on income from investments in stocks and on a continuing basis as well. Therefore, it



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Name of taxpayer	Tax Identification Number <i>(last 4 digits)</i>	Year/Period ended

is proposed that your exempt status under § 501(c)(7) of the Code be revoked effective

Should this revocation be upheld, Form \_\_\_\_\_ must be filed starting with tax periods ending  
and \_\_\_\_\_