



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

Date:
12/14/2021
Taxpayer ID number:

Form:

Tax periods ended:

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

Number: 202244022
Release Date: 11/4/2022

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), 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 for 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 have exceeded the non-member income test for tax year ending

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:

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.

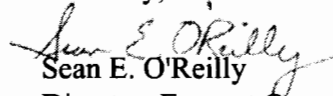
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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:
July 23, 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 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 (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

ISSUE:

1. Whether the _____, herein referred to as the "_____", is operating as a social club exempted under Internal Revenue Code section 501(c)(7)?
2. Whether the "_____" tax-exempt status as an IRC section 501(c)(7) social club, should be revoked?

FACTS:

The _____ organizing document is the _____ Charter and By-laws. The _____ was organized _____ however the proposed charter was filed in the state of _____ in _____ County on _____. The exact legal name of the organization in the by-laws and proposed charter is _____. The purpose stated in the charter were to promote the game of _____ and all other games which its members may play in conjunction with the game of _____.

The _____ was granted exemption under IRC section 501(c)(7) as of _____. The original letter of exemption was not located nor provided neither the original application for exemption. However, the organization provided a copy of a letter dated _____ that verified the organization's tax exemption status as social club exempted under IRC section 501(c)(7) with an effective date of _____.

On _____, the _____ filed Form _____ for the year ending _____ and reported the following revenues:

1. Membership dues \$ _____
2. Contributions \$ _____
3. Rental of facilities \$ _____
4. League fees \$ _____
5. Special events \$ _____
6. Tournament fees \$ _____
7. Inventory \$ _____

The _____ described its mission on the _____ Form _____ as to promote the game of _____ and other recreational activities for the pleasure and pastime of its members and the public.

On _____, the _____ was contacted by letter 3611, informing the organization that its Form _____ had been selected for examination. The organization was informed that the examination and request for documents was to verify the organization's continued qualification for exemption under Internal Revenue Code section 501(c)(7) as a social club and any unrelated business income from investments, non-member revenue and other sources which may subject the organization to tax under IRC section 512.

On _____, initial contact via telephone was made with the organization, Executive Director: _____. During the call, it was discussed the types of records that were being requested from the organization on the Information Document Request. The organization was advised on the recordkeeping requirements for social clubs as outlined in Revenue Procedure 71-17.

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On _____, a telephone interview was conducted with the Organization's Executive Director, _____ and Treasurer, _____.

Per the interview, the _____ is currently the oldest and largest remaining _____ in the _____ with currently _____ members. Basic annual membership dues in _____ were \$ _____ for individuals and \$ _____ or \$ _____ for a family membership. The _____ also offered Day membership at a rate of \$ _____ per day, whereas anyone can pay a nominal fee to have access to the _____. Individuals choosing this type of membership were not granted the same benefits as members who purchased the basic/family memberships. The _____ activities consist of _____ games for members-unorganized ways, game nights with members, annual meeting/holiday parties, and tournaments at the district and state level.

The sources of the _____ revenue are membership fees, league fees, rental of facilities, merchandise sales (such as t-shirts, cups and water bottles) and the annual _____ (fundraiser event).

The organization is governed by a board of directors. The Executive Director, who is also on the Board, makes the daily decisions for the _____. The Executive Director must obtain the Board's approval for any transactions over \$ _____.

On _____, the _____ submitted the response to information document request. The organization submitted books, records and bank statements for the year ending _____. The organization did not use an accounting system for the tax period under examination.

The _____ leases the facilities from the _____ for a nominal fee, \$ _____ monthlv. The facilities consist of _____ a Clubhouse, _____ room and bridge room kitchen, _____, and _____ space, which is a space for food trucks, a tent, or outdoor games such as croquet or cornhole. In the lease agreement between the _____ and the _____ there is a clause that states "if Licensee is a club or other organization that is leasing the Premises for a nominal fee, then the Licensee shall maintain provisions in its charter and by-laws stipulating that among its purposes is the providing of public services and the Licensee's use of the Premises under the agreement shall be for providing such public services".

The _____ hosts various events such as _____ boot camps and open game nights whereas the general public is involved. No records for attendance/rosters were maintained during any of the organization's events to track members and nonmembers attendance and participation. The organization submitted all rental agreements for facilities rentals for _____. It included one contract for _____ that was paid in _____ and contracts for _____ events that were paid in _____.

Per the initial interview, the _____ rents out the facilities to mostly members. The Executive Director advised that the intentions of the _____ were to only rent the facilities to members of the _____ however there were occasions where a rental contract would be executed before membership was initiated/obtained.

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Per the Form , the reported total revenues of \$. The reported \$ in gross receipts. The organization reported nonmember or unrelated business income sources as follows:

Form			
Part VIII Statement of Revenues			
Line 3	Investment income		
Line 6	Net rental income		
Unrelated Business Revenue			
Line 12			

As per examination of the organization's books, records and review of the Form filed by the organization, the following is a computation of the organization total revenue and the nonmember percentage of the total revenue.

NONMEMBER INCOME PERCENTAGE OF TOTAL REVENUE

Form		
Nonmember income	Nonmember rental of facilities	Total nonmember income
Club Facilities		
Investment income		
donations		
special events/tournament		
merchandise/inventory		
TOTAL		
Total gross receipts		
percentage	%	%

LAW:

IRC Section 501(c)(7) exempts from tax 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. In general, this exemption extends to social and recreational 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.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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IRC Section 501(c)(7) exempts from tax: 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 and Social and recreational clubs which are supported solely by membership fees, dues, and assessments (*Treas. Reg. 1.501(c)(7)-1(a)*)

Treas. Reg. 1.501(c)(7)-1 states (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 non-profitable 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 non-profitable 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.

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other non-profitable 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.

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.

Revenue Ruling 60-324 states by making its social facilities available to the general public the club cannot be treated as being operated exclusively for pleasure, recreation or other non-profitable purposes.

Revenue Procedure 71-17 sets forth the guidelines for determining the effect of gross receipts derived from the general public's use of a social club's facilities on exemption under IRC § 501(c)(7). Where nonmember income from the usage exceeds the standard as outlined in this Revenue procedure, the

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conclusion reached is that there is a non-exempt purpose and operating in this manner jeopardizes the organization's exempt status.

Revenue Procedure 71-17 sets forth the record-keeping requirements for social clubs exempt under IRC Section 501(c)(7) with respect to nonmember use of the club's facilities.

In **Pittsburgh Press Club v. U.S.**, 536 F.2d 572 (1976), 579 F.2d 751 (1978), and 615 F.2d 600 (1980), the court found that a substantial portion of the club's total gross receipts was from nonmember use of club facilities (determined to be between 11–17% of gross income). This indicated to the court that the club was engaged in business with the general public. The court also stated that the taxpayer has an obligation "to maintain records adequate to establish a right to the tax exemption", 536 F.2d at 576, and in particular to maintain adequate records which clearly show the frequency of nonmember use and the gross receipts derived therefrom, Rev.Proc. 71-17, 1971-1 C.B. 683.

TAXPAYER'S POSITION:

To be determined.

GOVERNMENT POSITION:

The cited law above provides criteria for recognition of a tax-exempt organization under IRC 501(c)(7). Generally, an organization is to be organized and operated exclusively for pleasure, recreation, and other nonprofit purposes for its members. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. The [redacted] is in operation for not only its members but is available and open to the general public.

In the case of the organization under examination, it was granted exemption in [redacted], as a social club under IRC 501(c)(7). IRC 501(c)(7) organizations are limited to the amount of nonmember income that it can receive and still maintain its exempt status. The nonmember income limitation for facilities rental is up to 15% of the gross revenue received.

In the year of examination, the Club's nonmember income from rental of the facilities was [redacted]%. The facts provided about the organization under examination shows that the entity exceeded the nonmember income limitation. The organization does not qualify for exemption under IRC 501(c)(7). The exemption status should be changed and revoked.

Furthermore, the [redacted] did not maintain adequate records to differentiate between member and nonmember income neither the recordkeeping requirements as set forth in Revenue Procedure 71-17. Revenue Procedure 71-17 outlines recordkeeping requirements for social clubs. Social clubs must maintain specific records as to the use of its facilities in order to substantiate a guest-host relationship for determining member versus nonmember usage.

A [redacted] relying on the [redacted] people or fewer assumption outlined in Rev. Proc. 71-17, Section 3 must maintain adequate records to substantiate that the group was comprised of [redacted] or fewer individuals, that at least [redacted] of them was a member, and that payment was received by the [redacted] directly from members or

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their employers. A club relying on the percent or more member assumption must maintain adequate records to substantiate that percent or more of the persons in the group were, in fact, members of the at the time of such use and that payment was received by the directly from members or their employers. Where payment is made directly to the by the member, the is under no obligation to inquire about reimbursement.

Additionally, a must maintain books and records for all instances involving use by nonmembers where the guest-host relationship cannot be assumed. Revenue Procedure 71-17 sets forth a list of information that is required to be recorded.

Failure to maintain records or make them available to the Service for inspection will preclude use of the minimum gross receipts standard and audit assumptions outlined in Rev. Proc. 71-17. All income derived from the use of the facilities would be considered unrelated business income and subject to income tax. Further, all income that cannot be traced to members is considered to be from nonmember sources and may be considered unrelated business income and subject to income tax. A could be subjected to the loss of its tax-exempt status, if it does not keep adequate books and records to show that it qualifies for exemption.

CONCLUSION:

Based on the above facts and circumstances, and considering the statutory law and rulings cited. The organization has exceeded the 15% nonmember income limitation. The organization does not qualify for tax-exemption under IRC section 501(c)(7) and should be revoked. The proposed date of the revocation is

Form 1120, U.S. Corporation Income Tax Return, should be filed for and thereafter if the organization continues to be subject to income tax.