



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

Date: August 5, 2022

Taxpayer ID number:

Form:

Tax periods ended:

Number: 202304010
Release Date: 1/27/2023

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

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), 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-profitable 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 did not keep records as required by Revenue Procedure 71-17. You have failed to show that you have not exceeded the non-member income test.

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.

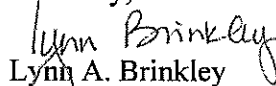
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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,



Lynn A. Brinkley

Acting 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: 11/17/2021

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

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.

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 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 _____ is a tax-exempt social club described under IRC (IRC) § 501(c)(7)?

FACTS

_____ is exempt as an organization in _____, described in IRC § 501(c)(7) to provide social, _____, and other activities to its members. This is a _____ with _____, _____, seating, and a _____. Members purchase _____ and _____ provides the following activities _____, _____, and _____.

The organization filed Articles of Incorporation in the state of _____ on _____. The specific and primary purpose of _____, per its Articles of Incorporation, is "...organized exclusively for holding a _____ registration permit and to operate a _____ for the use and benefit of its members."

The minutes of the organization meeting of the members and the board of directors on _____ stated, "...that the membership fee of the original charter members be waived and that the following new members would pay the following:

- Membership fee \$ _____
- Initial Stocking fee \$ _____
- _____ Assessment, _____ percent (_____ %) replacement of _____ price
- ... _____ be hired as manager and would assume the duties and responsibilities of manager and agent for _____.

The manager duties included:

- Carry out direction of permittee, its officers, directors, and employees in connection with the serving of _____.
- Furnish to patrons of the permittee an efficient operation of a _____ and _____ and to make available to the patrons of the permittee adequate facilities for serving _____.
- Provide food service to the patrons of the permittee.
- Furnish to the patrons of the permittee adequate personnel as may be necessary for the efficient preparation, handling, serving of _____, all of which personnel shall be paid by the Manager but shall be under the direction and control of the permittee.

"As compensation for such services and manager, Manager shall receive _____ % of the gross service revenue derived by _____ from the service of all _____ to _____ members and their guests to be paid _____."

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Individuals who entered were required to be to become a member. The application consisted of the individual's driver's license being scanned into a hand-held App called . There is no cost to become a member and you become a member for life. Applicants are preliminary members until the Membership committee meets. The forms indicated there were members in and .

Members have no voting rights and make no decisions for the organization. Only Board Members have voting rights. There is a member board. There is only committee, the Membership Committee which meets . The members of the organization meet a year. The organization has no record of the meetings for and and no copies of the Board meetings for this same period.

the location at , and the owner of the building expanded the building for the organization. To pay for the cost of the expansion, the owner increased the by \$ and gave the organization a no interest loan for years. The organization also received loans from board members to pay for initial operating costs when it opened.

is open round, from pm to am. It advertised on and the advertisement stated, the events were open to "public, anyone on or off ." During this time those who enter may participate in , , , and .

Advertising to General Public

Year	Advertising Expense
	\$
	\$

The organization had employees in and in when it ceased operations. When it closed it sold the assets of the organization to an individual. The remaining assets were not dispersed to the members of . The proceeds of the sale totaled \$, which were deposited into the personal bank account of the President of .

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

**Financial Examination
Non-Member Income**

Revenues

Revenue Type	Year	Non-member Allocation	Non-member Revenue
	\$	%	\$
Sales	\$	%	\$
Sale of Assets			
Sale of Inventory			
Total	\$		\$

Revenue Type	Year	Non-member Allocation	Non-member Revenue
	\$	%	\$
Sales	\$	%	\$
Sale of Assets	\$	%	\$
Sale of Inventory	\$	%	\$
Total	\$		\$

Expenses

Expense Type	Year	Year
Salaries & Wages	\$	\$
	\$	\$
Sales Tax	\$	\$
	\$	\$
	\$	\$
Other Expenses	\$	\$
Total	\$	\$

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While reviewing the general ledger, income statement, as well as other internal documents provided by the organization, it has been noted that the organization is open to the general public on a regular basis and all days of the _____ and for _____ hours, as stated previously.

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 engages in a business, such as making its social and recreational facilities open to the general public, is not organized, and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under section 501(a).

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.

(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 58-588, 1958-2 C.B. 265, holds that a social club that sells an unlimited number of memberships to so-called "members," who have no voice in the management of the club and whose only rights are to use the club's facilities upon payment of specified fees, is not a tax-

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exempt social club within the meaning of section 501(c)(7) of the Internal Revenue Code. Income from the members was, in reality, income from the general public.

Rev. Rul. 58-589, 1958-2CB 266 examines the criteria for determining whether an organization qualifies for exemption under Section 501(a) as an organization described in Section 501(c)(7) of the Code. This ruling states, "that a club which engages in business, such as making its social and recreational facilities available to the general public..., may not be considered as being organized and operated exclusively for pleasure, recreation or social purposes. ...solicitation by advertisements or otherwise of public patronage of its facilities may be adverse to the establishment of an exempt status."

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 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 69-635, 1969-2 C.B. 126, holds that an automobile club whose principal activity is rendering automobile services to its members but has no significant social activities, does not qualify for exemption under section 501(c)(7) of the Code. The basis for this conclusion is the fact the club had no significant commingling of its members.

In *Keystone Automobile Club v. Commissioner*, 181 F.2d 402 (3rd Cir. 1950), the United States Court of Appeals 3rd Circuit defined the word "club" to include some type of mingling of people together as well as a common object. In this case, the court held that the Keystone Automobile Club was not exempt under section 501(c)(7) of the Code for a number of reasons one of which was because they saw no evidence of the commingling of members.

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

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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 no membership dues. The representative from the organization stated there is no cost to become a member and they become members for life. All income from this organization was derived by non-members who enter and purchase , , play the and sales.

This organization has no members. This is according to Revenue Ruling - which states by making its social facilities available to the general public cannot be treated as being operated exclusively for pleasure, recreation, or other non-profitable purposes. advertised to the general public with advertising.

The organization has no record of non-member sales because it considered everyone and older to be a member. As per Revenue Procedure - , without records of non-member sales, all income from , , and income can be assumed to be from non-members.

The organization exceeded the % non-member threshold as outlined in Public Law 94-568, on a recurring basis during tax years ending and . You are primarily providing services with insignificant or no commingling. By operating in such a way, you do not qualify for exemption under section 501(c)(7) of the Code.

You have not demonstrated that individuals who enter have any interaction other than being at the same location to purchase . There is no common interest among them and your social activities are only incidental. Because you have demonstrated limited personal contact among individuals and there is no expectation of personal contact among them, commingling is not a material part of your activities. Therefore, you are not primarily operating in accordance with section 501(c)(7).

Rev. Ruls. 66-149 and 60-324 support this position stating that a social club that opens to the public and derives a substantial part of its income from non-member sources is not exempt as an organization described in 501(c)(7).

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

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CONCLUSION

does not qualify for exemption under § 501(c)(7) of the Code as your nonmember income has exceeded the % nonmember threshold on a continuing basis. Therefore, it is proposed that your exempt status under § 501(c)(7) of the Code be revoked effective