



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

Date: August 5, 2022

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Number: 202304013

Release Date: 1/27/2023

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 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 /11 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.

We'll notify the appropriate state officials (as permitted by law) of our determination that you aren't an organization described in IRC Section 501(c)(3).

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**

401 W. Peachtree St., NW
Room 1109 Stop 504-D
Atlanta, Ga 30308

Date: 12/23/2021
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

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 (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 (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 897, 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,

Karen T. Hood

Digitally signed by Karen T.
Hood
Date: 2021.12.23 10:17:51
-0500'

for

Sean F. O'Reilly
Director, Exempt Organizations Examinations

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

cc:

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 _____ (herein referred to as “EO”) continues to qualify for exemption under Internal Revenue Code (IRC) § 501(c)(7)?

FACTS:

The EO incorporated under Section 402 of the Not-for-profit Corporation Law in the State of _____ on _____ . The purpose of the EO, as stated in the Bylaws, is to “

”

The EO’s activities include sharing of the _____ , teaching about the planting of _____ in _____ , and teaching the importance of celebrating in the month of _____ the tradition of harvesting of _____ to make _____ . The EO is a membership organization. The membership consists of approximately _____ members. The membership fees are \$ _____ per person _____ . The EO _____ space at a community center for _____ () hours per _____ to practice the _____ . The EO pays the \$ _____ during the _____ they _____ . The EO meets _____ per _____ to practice _____ , have _____ member’s meetings, and quarterly officer/board meetings. The EO usually takes a break from practice and the _____ meetings a _____ during the _____ .

The organization participated in the following:

1. _____ – (once every _____ in _____ years), which includes _____ , classes, _____ , and _____ .
2. _____ – (Sponsored by the City of _____ , _____) celebrates different culture every month. The EO sets up an area and sells _____ and _____ . The EO is invited to participate in this event _____ .
3. _____ – (weekend from _____ – _____) – celebrates the harvest of the _____ .
4. _____ – a parade celebrating the end of _____ in _____ .

The above events were open to the general public.

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

The EO reported the following information on Form _____ for the tax period ending _____ :

Revenue		
Contributions, gifts, grants, and similar amounts received		
Membership dues and assessments		\$
Investment Income		\$
Gross income from fundraising events	\$	
Direct Expenses from gaming and fundraising events	(\$)	
Net income from fundraising events		\$
Total Revenue		\$
Expenses		
Professional fees and other payments to independent contractors		\$
Occupancy, rent, utilities, and maintenance		\$
Printing, publications, postage, and shipping		\$
Other Expenses		\$
Memberships	\$	
Licenses	\$	
Advertising	\$	
Refreshments	\$	
Insurance	\$	
Program Services	\$	
Supplies	\$	
Total Expenses		\$
Excess for the year		\$

Gross income from fundraising events amount represents the sale of _____ and _____ () at _____ and _____. The EO did not keep a record of whether sales were made to members or non-members. However, as stated above, these events were open to the general public.

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The below table represents the EO's income sources over _____ year period:

Source Income			
Membership Dues			
Investment Income			
Fundraising Events (nonmember income)			
Contributions			
Total Income/Revenue			
Investment Income + Fundraising Events =			
% of Income (nonmember income/total revenue)	%	%	%
% of Income (investment income + nonmember income/total revenue)	%	%	%
Exceeded % Limitation	Yes	Yes	Yes
Exceeded % Limitation	Yes	Yes	Yes

Based on the information above, the EO's nonmember income/total revenue exceeded the _____ % limitation nonmember income for _____ consecutive years. In addition, the EO's investment income plus nonmember income exceeded the _____ % limitation for _____ consecutive years.

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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, 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 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.

TAXPAYER'S POSITION:

Taxpayer’s position has not been provided.

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

Revenue Rulings 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).

The EO is primarily funded through the sale of _____ and _____ to the general public. The organization has exceeded the _____ % non-member threshold as outlined in Public Law 94-568, on a recurring basis during tax years ending _____, _____, and _____.

CONCLUSION:

The EO no longer qualifies for exemption under § 501(c)(7) of the Code since its 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 _____.

Should this revocation be upheld, Form _____ must be filed starting with tax period ending _____.