



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

Date:  
July 28, 2022  
Taxpayer ID number:

Form:

Tax periods ended:

Release Number: 202305013

Release Date: 2/3/2023

UIL Code: 501.07-00

Person to contact:

Name:

ID number:

Telephone:

Fax:

**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 organized and operated substantially for an exempt purpose within the meaning of IRC Section 501(c)(7). Your gross receipts from investments have consistently exceeded the % threshold as outlined in Public Law 94-568. As a result, you are not operating substantially for pleasure, recreation, or other non-profitable purposes.

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

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.

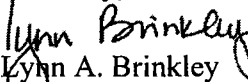
Find tax forms or publications by visiting [www.irs.gov/forms](http://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676).

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,



Lynn A. Brinkley

Acting Director, Exempt Organizations Examinations

**Enclosures:**

Publication 1

Publication 594

Publication 892



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

**Date:**  
01/26/2022  
**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:**  
February 24, 2022

**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.

**Contacting the Taxpayer Advocate Office is a taxpayer right**

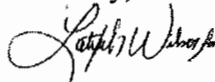
The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, 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

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 (last 4 digits)	Year/Period ended

**ISSUE**

Has \_\_\_\_\_ met the requirements of the Internal Revenue Code (IRC) Section 501(c)(7) and Treasury Regulation 1.501(c)(7)-1 if their investment income has repeatedly exceeded the \_\_\_\_\_ % investment income limitation?

**FACTS**

\_\_\_\_\_ is exempt as an organization described in IRC § 501(c)(7) to provide social, recreational, and other activities to its members. The organization was formed in \_\_\_\_\_ in the Court of \_\_\_\_\_ in \_\_\_\_\_. Their primary purpose, per their Form \_\_\_\_\_, is to foster good \_\_\_\_\_ among \_\_\_\_\_ and \_\_\_\_\_, preserve \_\_\_\_\_, and all forms of \_\_\_\_\_, aid in the distribution and \_\_\_\_\_ of \_\_\_\_\_, and to do all other acts consistent with the \_\_\_\_\_, \_\_\_\_\_, and the Association.

On \_\_\_\_\_, the Revenue Agent held a phone conference with \_\_\_\_\_, the organization’s \_\_\_\_\_. Through the conference it was discovered that the EO’s activities includes \_\_\_\_\_ and \_\_\_\_\_ parties and work weekends to maintain and improve the \_\_\_\_\_. It was also revealed that majority of the organization’s income is generated from investments. These investments include professionally managed investment accounts with \_\_\_\_\_ and \_\_\_\_\_. The organization also has a \_\_\_\_\_ which generates interest income and \_\_\_\_\_ in the form of \_\_\_\_\_.

The organization reported investment income on Form \_\_\_\_\_, Exempt Organization Business Income Tax Return, for the periods \_\_\_\_\_ – \_\_\_\_\_, as follows:

Form				
Total Investment Income	\$	\$	\$	
Gross Receipts	\$	\$	\$	\$
Percentage of investment income	%	%	%	%

The organization’s total investment income has consistently exceeded the \_\_\_\_\_ % investment income limitation.

**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.

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

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;

- 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.

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.

### **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.

Rev. Rul. 66-149 support this position stating that a social club is not exempt under Code section 501(c)(7) if it regularly derives a substantial part of its income from nonmember sources, such as investment income.

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

The organization's investment income makes up % of its gross receipts for the year under audit. Over the last tax years, investment income has consistently exceeded % of its gross receipts, exceeding the percent limitation on investment income for a 501(c)(7) organization.

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

**CONCLUSION**

does not qualify for exemption under section 501(c)(7) of the Code as their investment income has exceeded the limitations 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 periods ending

If you agree to this conclusion, please sign the attached Form  
If you disagree please submit a statement of your position