



**Department of the Treasury**  
**Internal Revenue Service**  
**Tax Exempt and Government Entities**  
P.O. Box 2508  
Cincinnati, OH 45201

**Date:**  
02/13/2023  
**Employer ID number:**

**Form you must file:**  
1120

**Tax years:**  
All

**Person to contact:**

Release Number: 202319022  
Release Date: 5/12/2023  
UIL Code: 501.07-01

Dear :

This letter is our 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). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit [www.irs.gov](http://www.irs.gov).

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures:  
Letter 437  
Redacted Letter 4034  
Redacted Letter 4038



**Department of the Treasury**  
**Internal Revenue Service**  
PO Box 2508  
Cincinnati, OH 45201

**Date:** 12/19/2022

**Employer ID number:**

**Person to contact:**

Name:

ID number:

Telephone:

Fax:

**Legend:**

B = Location of Incorporation  
C = Date of Incorporation  
D = Group Ruling Effective Date  
E = Prior Revocation Date  
F = Date Application Submitted  
G = Parent Organization  
H = University

**UIL:**

501.07-01

Dear :

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(7). This letter explains the reasons for our conclusion. Please keep it for your records.

**Issues**

Do you meet the organizational and operational tests for exemption under IRC Section 501(c)(7)? No, for the reasons stated below.

**Facts**

Your organization was formed as a corporation in the B on C. Your stated corporate purpose is for education and mutual improvement, along with receiving, holding, and conveying real and personal property necessary for the purposes for the corporation. You were granted tax exempt status under IRC Section 501(c)(7) in D as part of a group ruling. On E, your exemption was automatically revoked for failure to file a return for consecutive years. On F, you filed a Form 1024 application for re-instatement of your exempt status under IRC Section 501(c)(7).

You state in your application you were formed to assist G at H. You indicate you accomplish this support in several ways. You work with G to maintain a positive relationship with H. You assist G in mentoring undergraduates to obtain employment post-graduation, in obtaining new recruits by funding recruiting events, and in funding national fraternity activities. Lastly, you work with G to engage in philanthropic activities that benefit the community.

Membership is voluntary, but is open to all alumni who are in good standing with G and H. You indicate you are funded through two primary sources, membership dues and investment income, however the bulk of your funding will be received through investment income based on the information you provided. Your listed expenses include charitable contributions, taxes, fees, and other administrative items.

### **Law**

Section 501(c)(7) of the Code exempts 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.

Treasury Regulation Section 1.501(c)(7)-1(a) states exemption will be provided by Section 501(a) for organizations described in IRC Section 501(c)(7) 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.

Revenue Ruling 58-589, 1958-2 C.B. 266, stipulates expanded criteria for determining whether an organization qualifies for exemption under Section 501(c)(7) of the Code. An organization must establish (1) that it is a club both organized and operated exclusively for pleasure, recreation and other non-profitable purposes and (2) that no part of its net earnings inures to the benefit of any private shareholder or individual. To meet the first requirement, there must be an established membership of individuals, personal contracts, and fellowship. A commingling of the members must play a material part in the life of the organization.

Revenue Ruling 66-149, 1966-1 CB 146 held that a social club does not qualify for exemption under IRC Section 501(c)(7) when it receives a substantial part of its income from nonmember sources such as interests and dividends on investments it owns. This is evident when (1) that such income is derived from nonmember sources, (2) that income is received in fulfillment of and pursuant to a profit motive, and (3) that income from investments is substantial in relation to total income.

The Senate Report 94-1318 to Public Law 94-568, 1976-2 C.B. 896, provides that a social club may receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership without losing exemption. Within this 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 a club exempt from taxation described in IRC Section 501(c)(7) is permitted to 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.

### **Application of law**

To meet the requirements of IRC Section 501(c)(7), substantially all of your activities must be geared toward pleasure, recreation, and other non-profitable purposes. While you indicate your members are former members of G and will be assisting G in various areas, you have not provided any material evidence that these activities meet the requirements of IRC Section 501(c)(7).

You are similar to Rev. Rul. 58-589, as you have shown you meet the requirement of IRC Section 501(c)(7) of having an established membership. However, you state you were formed to assist G in its endeavors and not bound by a common objective directed towards pleasure and recreation. You also have not indicated how

regular commingling plays a material part in your activities to meet the social, pleasure, and recreational requirements of the section for which you have applied. Thus, you do not meet the operational requirement of IRC Section 501(c)(7).

Based on the financial information you provided, you are not supported primarily through membership fees, dues, and assessments. You are instead primarily supported by investment income. You therefore do not meet the income requirements for IRC Section 501(c)(7) as outlined in Senate Report 94-1318 Sept. 28, 1976. In three of the four years of information provided, you exceeded the 35% limit of gross receipts from nonmember income. This investment activity is regularly carried on and is your primary source of income. The pursuit of income in this manner is non-distinguishable from a for-profit motive and is substantial in relation to your total income. Therefore, you do not meet the income requirements for exemption under IRC Section 501(c)(7). See Treas. Reg. Section 1.501(c)(7)-1(a) and Rev. Rul. 66-149.

### **Conclusion**

Based on the information provided, you do not qualify for exemption under IRC Section 501(c)(7). You have not provided evidence that substantially all of your activities are for pleasure, recreation, and other non-profitable purposes and that commingling is a material part of your activities. You do not meet the income requirements of this section because you are funded primarily through investment income. Therefore, we cannot grant exemption under IRC Section 501(c)(7).

### **If you agree**

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

### **If you don't agree**

You have a right to protest if you don't agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

**For an officer, director, trustee, or other official who is authorized to sign for the organization:**

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, Power of Attorney and Declaration of Representative, with us if they haven't already done so. You can find more information about representation in Publication 947, Practice Before the IRS and Power of Attorney.

We'll review your protest statement and decide if you gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

**Where to send your protest**

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service  
EO Determinations Quality Assurance  
Mail Stop 6403  
PO Box 2508  
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service  
EO Determinations Quality Assurance  
550 Main Street, Mail Stop 6403  
Cincinnati, OH 45202

You can also fax your protest and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that they received it.

You can get 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 listed at the top of this letter.

**Contacting the Taxpayer Advocate Service**

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 if 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.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements