



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

Date:
01/12/2023
Taxpayer ID number (last 4 digits):

Forms:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Last day to file petition with United States

Tax Court: 04/12/2023

Release Number: 202319024

Release Date: 5/12/2023

UIL Code: 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 operated substantially for the 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) because you have exceeded the 35% limit on gross receipts for non-member income for tax year ending _____. (Public Law 94-568) Furthermore, you exceeded the permissible 35% limit on gross receipts of non-member income in the tax years ending _____ and _____, establishing a pattern of non-compliance.

Organizations that are not exempt under Internal Revenue Code (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 [IRS.gov](https://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 can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. You can download a fillable petition or complaint form and get information about filing at each respective court's website listed below or by contacting the Office of the Clerk of the Court at one of the addresses below. Be sure to include a copy of this letter and any attachments and the applicable filing fee with the petition or complaint.

You can eFile your completed U.S. Tax Court petition by following the instructions and user guides available on the Tax Court website at ustaxcourt.gov/dawson.html. You will need to register for a DAWSON account to do so. You may also file your petition at the address below:

United States Tax Court
400 Second Street, NW
Washington, DC 20217
ustaxcourt.gov

The websites of the U.S. Court of Federal Claims and the U.S. District Court for the District of Columbia contain instructions about how to file your completed complaint electronically. You may also file your complaint at one of the addresses below:

US Court of Federal Claims
717 Madison Place, NW
Washington, DC 20439
uscfc.uscourts.gov

US District Court for the District of Columbia
333 Constitution Avenue, NW
Washington, DC 20001
dcd.uscourts.gov

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:

Internal Revenue Service
Taxpayer Advocate Office

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.

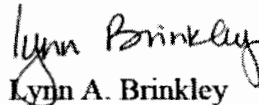
Find tax forms or publications by visiting irs.gov/forms or calling 800-TAX-FORM (800-829-3676). If you have questions, you can call the person shown at the top of this letter.

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.

You may fax your documents to the fax number shown above, using either a fax machine or online fax service. Protect yourself when sending digital data by understanding the fax service's privacy and security policies.

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:
March 10, 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:
April 07, 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 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,

Lynn A. Brinkley
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended

ISSUE

Whether _____, located in _____, continues to qualify for exemption under Section 501(c)(7) of the Internal Revenue Code?

FACTS

The EO was granted tax-exempt status under Internal Revenue Code Section § 501(c)(7) as an organization described in § 501(c)(7). The organization conducted its operations out of _____. According to its Bylaws, the purposes of the EO are as follows.

This association shall not, except to an insubstantial degree, engage in any activities that are not in furtherance of the primary purpose of the association.

The organization filed Form 1024, Application for Recognition of Exemption under Sections 501(a) and stated the organization's purpose and activities are as follows:

We have had _____ parties to promote Memberships at members home, set up tables at numerous _____, in order to sell memberships. Help _____ with names and addresses of _____ . Participated at _____ and had a float in the _____ to promote membership.

The originally filed _____ for _____ shows the following:

<i>Income</i>	
Investment Income	\$
Gross amount from Sale of Securities	\$
Less: Cost or other basis and sale expense	\$
Gain from sale of assets other than inventory	\$
Total Income	\$
 <i>Expenses</i>	
Grants and other similar amounts paid	\$
Professional fees	\$
Total Expenses	\$
 Net Loss	 -\$

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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On _____, the Power of Attorney provided board meetings minutes via fax which discuss the organization's activities for periods _____, to _____. The board members would meet _____ times a year, to provide an update on the organization's financial status and discussion of scholarship recipients and requirements. No other documentation was provided.

On _____, a telephone interview was held with the Power of Attorney. During the interview, it was stated, "The organization's primary activities include receiving donations and issuing scholarships to students who attend _____. Total scholarships issued to the students would be \$ _____ to \$ _____ per year. In prior years, the organization held alumni dinners and class reunions with members, to promote membership and to earn contributions. Investment income is the primary source of income for the organization, contributions are winding down and alumni dinners did not take place last year. The last alumni dinner was held _____ years ago. Also, there are less in person interactions with the other members due to covid. Also, the organization does not know whether they will continue conducting social activities".

The organization did not receive exempt function income such as dues, fees, charges or other amounts paid by members for the taxable year and the subsequent years the Form _____ was filed.

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

Total Nonmember Income	\$ _____	\$ _____	\$ _____	\$ _____	-
Total Nonmember & Investment Income	\$ _____	\$ _____	\$ _____	\$ _____	-
Total Income	\$ _____	\$ _____	\$ _____	\$ _____	-
Nonmember % - A/C		%	%	%	%
Total Nonmember & Investment % - B/C		%	%	%	%

Based on conducting an analysis of gross receipts, it has been noted that the organization received _____% from nonmember and Investment income.

LAW

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended

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.

To compute the gross receipts test, the Committee Reports that accompanied P.L. 94-568, state that social clubs shouldn't receive, within the 15 or 35 percent allowances, any income from nontraditional business activities. S. Rep. No. 94-1318 (1976). When an organization's nontraditional income causes the organization to exceed the 15 or 35 percent allowances, consider whether the organization continues to substantially operate for exempt 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 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.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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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.

ORGANIZATION'S POSITIONS

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 exceeded the 35% of non-member and investment income threshold outlines in Public Law 94-568. The committee reports of Public Law 94-568 states a social club may received investment income up to the full 35% of its gross receipts if no income is derived from non-members' use of club facilities. The organization did not receive income from non-members' use of club facilities. However, investment income was % of the organization's gross receipts which exceeds the 35% threshold of income from outside of membership.

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

CONCLUSION

The no longer qualifies for exemption under § 501(c)(7) of the Code as your nonmember income has exceeded the 35% of non- member and investment income threshold on a continuing basis. Therefore, it is proposed that your exempt status under § 501(c)(7) of the Code be revoked effective