



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

[REDACTED]

[REDACTED]

Release Number: 202327016
Release Date: 7/7/2023
UIL CODE: 501.07-00

Date:
April 13, 2023
Taxpayer ID number (last 4 digits):
[REDACTED]
Form:
[REDACTED]
Tax periods ended:
[REDACTED]
Person to contact:
Name: [REDACTED]
ID number: [REDACTED]
Telephone: [REDACTED]
Fax: [REDACTED]
Last day to file petition with United States
Tax Court:

CERTIFIED MAIL - Return Receipt Requested

Dear [REDACTED]:

Why we are sending you this letter

This is a final determination explaining why your organization doesn't qualify as an organization described in Internal Revenue Code (IRC) Section 501(c)(7) for the tax periods above.

In the future, if you believe your organization qualifies for tax-exempt status and would like a determination letter from the Internal Revenue Service, you can request a determination by filing Form 1024, Application for Recognition of Exemption Under Section 501(a), or Form 1024-A, Application for Recognition of Exemption Under Section 501(c)(4) of the Internal Revenue Code, (as applicable) and paying the required user fee.

Our adverse determination as to your exempt status was made for the following reasons: You have not established that you are organized and operated exclusively for an exempt purpose within the meaning of IRC Section 501(c)(7). Your only social event is attended primarily by nonmembers. Furthermore, your club did not meet the record keeping requirements outlined in Revenue Procedure 71-17 to establish a host-guest relationship. 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 [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.

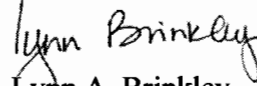
Find tax forms or publications by visiting [IRS.gov/forms](https://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676). If you have questions, you can call the person shown at the top of this letter.

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.

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

Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892



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

[REDACTED]

[REDACTED]

Date:
01/13/2023
Taxpayer ID number:

[REDACTED]

Form:
[REDACTED]

Tax periods ended:
[REDACTED]

Person to contact:

Name: [REDACTED]

ID number: [REDACTED]

Telephone: [REDACTED]

Fax: [REDACTED]

Address:
[REDACTED]

Manager's contact information:

Name: [REDACTED]

ID number: [REDACTED]

Telephone: [REDACTED]

Response due date:

CERTIFIED MAIL – Return Receipt Requested

Dear [REDACTED]:

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that your organization doesn't qualify as an organization described in Internal Revenue Code (IRC) Section 501(c)(7).

This letter is not a determination of your tax-exempt status under IRC Section 501 for any period other than the tax periods above.

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.

In the future, if you believe your organization qualifies for tax-exempt status and would like a status determination letter from the IRS, you can request a determination by filing Form 1024, Application for Recognition of Exemption Under Section 501(a), and paying the required user fee.

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.

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,

Christopher M. Holmes
Lynn A. Brinkley
Director, Exempt Organizations Examinations

Digitally signed by Christopher M. Holmes
Date: 2023.01.12 16:24:30 -08'00'

Enclosures:
Form 4621-A
Form 886-A
Form 6018

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Issued with Letter 3618, Form 4621-A, and Form 6018 on [REDACTED]

ISSUES:

Whether the [REDACTED] is qualified to be exempt under Section 501(c)(7) of the Internal Revenue Code (all Sections in this report refer to the Internal Revenue Code unless specified).

FACTS:

Background

On [REDACTED], [REDACTED] was incorporated in the state of [REDACTED]. Article II of [REDACTED] articles of incorporation states its purpose as:

"... [REDACTED] and for the general purpose of social intercourse among ourselves and associates."

The bylaws, adopted on [REDACTED], state that there is only one class of membership, and the club is to be governed by a board of directors consisting of [REDACTED] members. Each director is entitled to one vote on all matters; no other members have voting rights. [REDACTED] is managed by three officers, the President, Secretary, and Treasurer, who are appointed by the board of directors. There are no term limits on each officer position and the Secretary and Treasurer position can be held by the same member.

No [REDACTED], was filed by [REDACTED] with the Internal Revenue Service ("the Service"). Per the Service's records, [REDACTED] began filing [REDACTED], beginning with the tax period ending [REDACTED], and selected Section 501(c)(7) for their tax-exempt status.

[REDACTED] For the tax periods ending [REDACTED], and [REDACTED], [REDACTED] reported the following income and expenses.

	[REDACTED] (\$)	[REDACTED] (\$)
Program service revenue	[REDACTED]	[REDACTED]
Investment income	[REDACTED]	[REDACTED]
Total revenue	[REDACTED]	[REDACTED]
Professional fees and other payments to independent contractors	[REDACTED]	[REDACTED]
Occupancy, rent, utilities, and maintenance	[REDACTED]	[REDACTED]
Printing, publications, postage, and shipping	[REDACTED]	[REDACTED]
Other expenses	[REDACTED]	[REDACTED]
Total expenses	[REDACTED]	[REDACTED]
Excess or (deficit) for the year	[REDACTED]	[REDACTED]

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On [REDACTED], the Service sent [REDACTED] regarding [REDACTED] investment income. Subsequently, [REDACTED] filed [REDACTED], and reported the following:

	(\$)	(\$)
Investment Income	[REDACTED]	[REDACTED]
Less: Expenses	[REDACTED]	[REDACTED]
Less: Specific deduction	[REDACTED]	[REDACTED]
Unrelated business taxable income	[REDACTED]	[REDACTED]

Examination

The agent initiated an examination of the [REDACTED] for the year ended [REDACTED], on [REDACTED]. On [REDACTED], the agent expanded the examination to the year ended [REDACTED].

In response to the agent's information document request regarding financials, [REDACTED] stated it did not use QuickBooks or any other type of accounting software. No general ledger or chart of accounts were provided to the agent. Instead, [REDACTED] provided [REDACTED] check stubs for their business checking account, with items manually entered within the stubs, and the following summary.

Revenue	(\$)	(\$)
Total Paid at \$ [REDACTED] each	[REDACTED]	[REDACTED]
Late Fees/Paypal Adj	[REDACTED]	[REDACTED]
New Members at \$ [REDACTED] each	[REDACTED]	[REDACTED]
Sale of Raffle Tickets	[REDACTED]	[REDACTED]
Bar/Beer/Tips [REDACTED]	[REDACTED]	[REDACTED]
Total [REDACTED]	[REDACTED]	[REDACTED]
Declined and disputed cards as of [REDACTED]	[REDACTED]	[REDACTED]
Total Revenue	[REDACTED]	[REDACTED]

Expenses	(\$)	(\$)
Brd Mtg [REDACTED] and workday [REDACTED] Lunch	[REDACTED]	[REDACTED]
Board Mtg [REDACTED]	[REDACTED]	[REDACTED]
Clerical [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] Sec of State Annual Renewal [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] Pay Reimbursements	[REDACTED]	[REDACTED]

Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]
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Issued with Letter 3618, Form 4621-A, and Form 6018 on [REDACTED].

Fee PAID [REDACTED]			
[REDACTED]-D & O, Liability			
[REDACTED]-property tax			
Renewal tags on trailer (#1)(#2)			
Tax Prep and Costs			
[REDACTED]			
Meeting-computer programmer			
Bank charge- cash handling			
Tips Training			
Total Service Costs			
Total Printing & Office Supply Costs			
Total Food Costs			
Total Refreshment Costs			
[REDACTED]			
Total Maintenance, Repairs & Misc Purchase Costs			
Total Expenses			
Net Income (Loss)			

During the interview on [REDACTED], the agent inquired about [REDACTED] record keeping practices. [REDACTED] stated that [REDACTED] administrative tasks were handled at his [REDACTED], with the assistance of [REDACTED]. [REDACTED] itself does not have an office and uses the [REDACTED] address for mailing purposes. Each year, [REDACTED] would mail letters to members to collect annual dues. Throughout the year, member dues and guest ticket receipts are sent to the [REDACTED] by check or PayPal. Each check payment is to be photocopied and placed in its corresponding member's file; this ensures that each guest ticket can be traced to an inviting member. [REDACTED] stated that [REDACTED] policy was for members to pay for their guests' tickets. Additionally, [REDACTED] with [REDACTED] assistance, handled all payment of [REDACTED] expenses.

On [REDACTED], the agent requested a sample of the checks deposited to verify their source. The agent received copies of bank deposit slips but not copies of the individual checks deposited into the account. The agent spoke with [REDACTED] to clarify that the copy of the check deposited would need to be provided, not the deposit slip, for the agent to verify whether the deposit came from a member or a guest. No copies of checks deposited by [REDACTED] were provided to the agent.

Membership

To obtain membership, individuals must be sponsored by a current member and their applications are subject to approval by the board of directors. The sponsoring member must pay the \$ [REDACTED] initiation fee, in addition to the annual dues of \$ [REDACTED] for each new member. (Although this

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

Issued with Letter 3618, Form 4621-A, and Form 6018 on [REDACTED].

arrangement sounded unusual that existing members would pay for a potential member to join, the agent stated as explained.)

The agent asked for the criteria that the board uses when reviewing a membership application; [REDACTED] stated that the individual must be courteous, not [REDACTED], and have a [REDACTED]. He explained that, typically, it would take [REDACTED], such as [REDACTED] before a member will sponsor them.

Members were expected to bring guests, and this is how they solicited new members. [REDACTED] provided an example, he would bring [REDACTED] guys to the annual event and, maybe, [REDACTED] would like it and come again. They start to become interested in what they can bring to the event and in becoming a member. [REDACTED] membership numbers varied year to year, but there were about [REDACTED] members in [REDACTED]. Overall, [REDACTED] membership had been declining due to the passing of members in the last [REDACTED] years. Currently, [REDACTED] has at least [REDACTED] to [REDACTED] members.

Benefits to Members

[REDACTED] stated that, during the years under exam, members paid annual dues of \$ [REDACTED]. In return for payment of the annual dues, a member received an admission ticket to the annual event, raffle tickets, and a member ribbon to wear at the event. Paid members can also invite an unlimited number of guests, until the event capacity limit of [REDACTED] individuals was reached. Each guest ticket cost \$ [REDACTED] and included raffle tickets. [REDACTED] would check everyone at the event entrance to ensure they had paid; admission entitled each attendee to food, beer, alcohol, and horseshoes. The agent inquired why there was no difference in cost between the annual dues and the guest admission ticket, [REDACTED] stated they felt no need to charge a different amount since each member and guest ate and drank the same amount.

Annual Event

[REDACTED] conducts [REDACTED] annual event known as [REDACTED], that is held on the [REDACTED] after [REDACTED]. This event is held on [REDACTED] and [REDACTED] pays a permit fee to the [REDACTED] every year to reserve the same location. Agent asked if the members met at any other time of the year, [REDACTED] stated there were two meetings for the board of directors only, one to discuss planning of the event and one afterwards to discuss the results of the event.

[REDACTED] stated in a letter dated [REDACTED], that, [REDACTED] while the members and guests enjoy the [REDACTED], play horseshoes, watch the [REDACTED] most years, play cards-in strict compliance with [REDACTED] law, and socialize with everyone else. [REDACTED] is always on the second [REDACTED] after [REDACTED] and has been held every year except during [REDACTED] and last year, [REDACTED]

The agent requested additional details regarding what occurred on the day of the event; [REDACTED]

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

Issued with Letter 3618, Form 4621-A, and Form 6018 on [REDACTED].

stated that the event started at [REDACTED] but some attendees would arrive as early as [REDACTED]. Each attendee's ticket is checked at the ticket shed and exchanged for a badge and lanyard. Attendees would get in various lines to receive [REDACTED]. Drinks are ordered at the bar from the bartender, a volunteer who had received state alcohol training. At [REDACTED] a lunch is provided, in addition to [REDACTED]. The highlight of the event is the [REDACTED]. Each attendee is allocated [REDACTED] that can be taken home. In addition to the [REDACTED], each attendee has at least [REDACTED] entries for a raffle conducted around [REDACTED] for a chance to win one of the [REDACTED]. Throughout the event, attendees can talk, play horseshoes and cards, and are able to purchase [REDACTED]. The agent asked if they kept records on whether a member or guest purchased a [REDACTED]. [REDACTED] stated they did not. The event ends when the last member or guest leaves, typically around [REDACTED].

Volunteers at the Event

[REDACTED] used "volunteers" referred to as the [REDACTED], that consisted of members and nonmembers. Individuals on the [REDACTED] were not required to pay the \$ [REDACTED] to attend the annual event. The primary duties of the [REDACTED] were to prepare the [REDACTED], food preparation and distribution, bartending, and checking tickets.

[REDACTED] stated that the [REDACTED] would arrive one day prior to the event to clean, repair, and otherwise ready the site for the event. The day prior to the event, the [REDACTED] would be provided meals, hold their own [REDACTED] raffle, and camp overnight. Additionally, [REDACTED] would provide cash "reimbursements" to the individuals on the [REDACTED] for out-of-pocket expenses, such as gas. Agent requested a copy of invoices or receipts to support these reimbursement amounts. [REDACTED] provided a list of names with dollar amounts, ranging from \$ [REDACTED] to \$ [REDACTED], next to each name. No other documents were received by the agent to support these reimbursement amounts.

Guests at the Event

In addition to there being no limit on the number of guests that each paid member can bring, there is no limit to how many times a guest can attend the annual event. The only requirement was that each guest must behave themselves and the \$ [REDACTED] be paid for their admission ticket.

[REDACTED] provided the following attendance information, that indicate that [REDACTED] % of attendees were nonmembers.

	[REDACTED]		[REDACTED]	
	Attendees	Percentage	Attendees	Percentage
Paid Members	[REDACTED]	[REDACTED] %	[REDACTED]	[REDACTED] %
Paid Guests	[REDACTED]	[REDACTED] %	[REDACTED]	[REDACTED] %
Total Paid Attendees	[REDACTED]	[REDACTED] %	[REDACTED]	[REDACTED] %

Member versus Nonmember Sources

Based on the nature of the revenue or expense, items were classified as either fixed ("F"), a

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Issued with Letter 3618, Form 4621-A, and Form 6018 on [REDACTED]

transaction that would have occurred regardless of guest attendance, or variable ("V"), the amount would have fluctuated based upon attendance numbers.

Expenses such as [REDACTED], state fees, taxes, meetings, insurance, and maintenance were classified as fixed costs that members would have had to pay regardless of guest attendance.

Type	Revenue	Total (\$)	Member (\$)	Guest (\$)
V	Total Paid at \$ [REDACTED] each	[REDACTED]	[REDACTED]	[REDACTED]
V	Late Fees/Paypal Adj	[REDACTED]	[REDACTED]	[REDACTED]
F	New Members at \$ [REDACTED] each	[REDACTED]	[REDACTED]	[REDACTED]
V	Sale of Raffle Tickets	[REDACTED]	[REDACTED]	[REDACTED]
V	Bar/Beer/Tips from [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
V	Total [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Total Revenue	[REDACTED]	[REDACTED]	[REDACTED]
Type	Expenses	Total (\$)	Member (\$)	Guest (\$)
F	Brd Mtg [REDACTED] and workday [REDACTED] Lunch	[REDACTED]	[REDACTED]	[REDACTED]
F	Clerical	[REDACTED]	[REDACTED]	[REDACTED]
F	Sec of State Annual Renewal [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
V	Pay Reimbursements	[REDACTED]	[REDACTED]	[REDACTED]
F	[REDACTED] Fee PAID [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
F	[REDACTED]-D & O, Liability	[REDACTED]	[REDACTED]	[REDACTED]
F	[REDACTED]-property tax	[REDACTED]	[REDACTED]	[REDACTED]
F	Renewal tags on trailer (#1)(#2)	[REDACTED]	[REDACTED]	[REDACTED]
F	Tax Prep and Costs	[REDACTED]	[REDACTED]	[REDACTED]
F	Tips Training	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Service Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Printing & Office Supply Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Food Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Refreshment Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
F	Total Maintenance, Repairs & Misc Purchase Costs	[REDACTED]	[REDACTED]	[REDACTED]
	Total Expenses	[REDACTED]	[REDACTED]	[REDACTED]
	Net Income (Loss)	[REDACTED]	[REDACTED]	[REDACTED]

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

Issued with Letter 3618, Form 4621-A, and Form 6018 on [REDACTED]

Type	Revenue	Total (\$)	Member (\$)	Guest (\$)
V	Total Paid at \$ [REDACTED] each	[REDACTED]	[REDACTED]	[REDACTED]
V	Late Fees/Paypal Adj	[REDACTED]	[REDACTED]	[REDACTED]
F	New Members at \$ [REDACTED] each	[REDACTED]	[REDACTED]	[REDACTED]
V	Sale of Raffle Tickets	[REDACTED]	[REDACTED]	[REDACTED]
V	Bar/Beer/Tips [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
V	Total [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
V	Declined and disputed cards as of [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	Total Revenue	[REDACTED]	[REDACTED]	[REDACTED]
Type	Expenses	Total (\$)	Member (\$)	Guest (\$)
F	Board Mtg [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
F	Clerical	[REDACTED]	[REDACTED]	[REDACTED]
F	Sec of State Annual Renewal [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
V	Pay Reimbursements	[REDACTED]	[REDACTED]	[REDACTED]
F	[REDACTED] Fee PAID [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
F	[REDACTED]-D & O, Liability	[REDACTED]	[REDACTED]	[REDACTED]
F	[REDACTED]-property tax	[REDACTED]	[REDACTED]	[REDACTED]
F	Renewal tags on trailer (#1)(#2)	[REDACTED]	[REDACTED]	[REDACTED]
F	Tax Prep and Costs	[REDACTED]	[REDACTED]	[REDACTED]
F	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
F	Meeting-computer programmer	[REDACTED]	[REDACTED]	[REDACTED]
F	Bank charge- cash handling	[REDACTED]	[REDACTED]	[REDACTED]
F	Tips Training	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Service Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Printing & Office Supply Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Food Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total Refreshment Costs	[REDACTED]	[REDACTED]	[REDACTED]
V	Total [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
F	Total Maintenance, Repairs & Misc Purchase Costs	[REDACTED]	[REDACTED]	[REDACTED]
	Total Expenses	[REDACTED]	[REDACTED]	[REDACTED]
	Net Income (Loss)	[REDACTED]	[REDACTED]	[REDACTED]

Based on this allocation, there would have been a net loss of \$ [REDACTED] and \$ [REDACTED] for [REDACTED] and [REDACTED], respectively, if only members would have attended the event. Nonmembers brought in additional net income of \$ [REDACTED] and \$ [REDACTED], in [REDACTED] and [REDACTED], respectively.

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

Issued with Letter 3618, Form 4621-A, and Form 6018 on [REDACTED].

LAW:

Section 501(a) states, "An organization described in subsection (c)...shall be exempt from taxation under this subtitle unless such exemption is denied under section 502 or 503."

Section 501(c)(7) states, "Clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of net earnings of which inures to the benefit of any private shareholder."

Section 6001 states "Every person liable for any tax imposed by the title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgement of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title."

Section 6033(a)(1) states "Every organization exempt from tax under section 501(a) shall file an annual return, stating specifically the items of gross income, receipts and disbursements, and such other information for the purposes of carrying out the internal revenue laws as the Secretary may by forms or regulations prescribe, and shall keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe."

Section 1.501(c)(7)-1(a) of the Federal Tax Regulations (the "Regulations") states "The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies 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. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

Section 1.501(c)(7)-1(b) of the Regulations state, "A club which engages in business, such as making its social and recreational facilities available 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)."

Section 1.6001-1(c) of the Regulations states, "In addition to such permanent books and records as are required by paragraph (a) of this section with respect to the tax imposed by section 511 on unrelated business income of certain exempt organizations, every organization exempt from tax under section 501(a) shall keep such permanent books of account or records, including inventories, as are sufficient to show specifically the items of gross income, receipts and disbursements. Such

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organizations shall also keep such books and records as are required to substantiate the information required by section 6033.”

Section 1.6001-1(e) of the Regulations states, “The books or records required by this section shall be kept at all times available for inspection by authorized internal revenue officers or employees, and shall be retained so long as the contents thereof may become material in the administration of any internal revenue law.

Public Law 94-568, 1976-2 C.B. 596 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.

Revenue Ruling 58-589, 1958-2 C.B. 266, describes the characteristics of a social club as personal contacts, fellowship, and a commingling of members. In making a determination whether an organization comes within the provisions of Section 501(c)(7), all facts pertaining to its form of organization, method of operation and activities should be considered. An organization must establish (1) that it is a club both organized and operated exclusively for pleasure, recreation and other nonprofitable 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 contacts and fellowship. A commingling of the members must play a material part in the life of the organization. Regarding the second requirement, a social club should not engage in any type of business activity for profit which is designed to increase, or which could result in an increase in net earnings inuring to the benefit of any shareholder or individual. Net earnings may inure to members in such forms as an increase in services offered by the club without a corresponding increase in dues or other fees paid for club support or as an increase in the club's assets which would be distributable to members upon the dissolution of the club.

Revenue Ruling 69-635, 1969-2 C.B. 126, the principal purpose of this organization is rendering automobile service to its members there is no significant commingling with respect to this activity and therefore the membership did not qualify for exemption under Section 501(c)(7). Most of the services offered are a type generally available to motorists on a commercial basis.

Revenue Procedure 71-17, 1971-1 C.B. 683, provides guidance for social clubs on determining nonmember status and recordkeeping requirements. The two relevant sections are reproduced here:
Section 3.03 Assumption as to status of nonmembers

1. Where a group of eight or fewer individuals, at least one of whom is a member, uses club facilities, it will be assumed for audit purposes that the nonmembers are the guests of the member, provided payment for such use is received by the club directly from the member or the member's employer.
2. Where 75 percent or more of a group using club facilities are members, it will likewise be assumed for audit purposes that the nonmembers in the group are guests of the members, provided payment for such use is received by the club directly from one or

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- more of the members or the member's employer.
3. Solely for the purposes of 3.03.1 and 3.03.2 above, payment by a member's employer will be assumed to be for a use that serves a direct business objective of the employee-member.
 4. In all other situations, a host-guest relationship will not be assumed but must be substantiated. See section 4 of the revenue procedure for the records required.

Section 4 Recordkeeping requirements

.01 With respect to the situation described in section 3.03-1, above, the records specified in section 4.03, below, need not be maintained by the club. However, the club must maintain adequate records to substantiate that the group was comprised of eight or fewer individuals, that at least one of them was a member, and that payment was received by the club directly from members or their employers. Where payment is made directly to the club by the member, the club is under no obligation to inquire about reimbursement.

.02 With respect to the situation described section 3.03-2, above, the records specified in section 4.03, below, need not be maintained by the club. However, the club must maintain adequate records to substantiate that 75 percent or more of the persons in the group were, in fact, members of the club at the time of such use and that payment was received by the club directly from members or their employers. Where payment is made directly to the club by the member, the club is under no obligation to inquire about reimbursement.

.03 With respect to all other occasions involving use by nonmembers, the club must maintain books and records of each such use and the amount derived therefrom. This requirement applies even though the member pays initially for such use. In each instance the record must contain the following information:

1. The date;
2. The total number in the party;
3. The number of nonmembers in the party;
4. The total charges;
5. The charges attributable to nonmembers
6. The charges paid by nonmembers;
7. Where a member pays all or part of the charges attributable to nonmembers, a statement signed by the member indicating whether he has been or will be reimbursed for such nonmember use and, if so, the amount of reimbursement;
8. Where the member's employer reimburses the member or makes direct payment to the club for the charges attributable to nonmembers, a statement signed by the member indicating the name of his employer; the amount of the payment attributable to the nonmember use; the nonmember's name and business or other relationship to the member; and the business, personal, or social purpose of the member served by the nonmember use...
9. Where a nonmember, other than the employer of the member, makes payment to the club or reimburses a member and a claim is made that the amount was paid

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gratuitously for the benefit of a member, a statement signed by the member indicating the donor's name and relationship to the member, and containing information to substantiate the gratuitous nature of the payments or reimbursement.

.04 Failure to maintain such records or make them available to the Service for examination will preclude use of the minimum gross receipts standard and audit assumptions set forth in this Revenue Procedure.

TAXPAYER'S POSITION:

Taxpayer's position has not been provided.

GOVERNMENT'S POSITION:

It is the government's position that [REDACTED] does not qualify for exemption. In order to qualify for tax exemption under Section 501(c)(7), [REDACTED] must show that it is both:

1. organized and operated exclusively for pleasure, recreation, and other nonprofitable 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, Revenue Ruling 58-589 states that [REDACTED] must demonstrate that there is an established membership of individuals, personal contact, and fellowship.

- Membership – [REDACTED] requires that members pay an annual due of \$ [REDACTED] and attend the annual event. According to [REDACTED], a [REDACTED] and sponsorship by a current member are the only requirements for membership. There are no other conditions or requirements for membership.
- Personal contact – It is important for members of social club to have face to face interaction. The Club conducts only one event that allows its member to come together and comingle.
- Fellowship – Per [REDACTED] letter, the sole purpose of the event is for members and guests to eat and socialize.

The [REDACTED] event [REDACTED] held was social and recreational in nature. However, there were no other opportunities for members to interact with each other. Additionally, event attendance comprised of [REDACTED] % nonmembers and [REDACTED] did not meet the record keeping requirements outlined in Revenue Procedure 71-17 to establish a host-guest relationship. [REDACTED] did not provide documents to show if gross receipts were from members or nonmembers; thus, the assumption is that nonmembers paid for themselves.

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To meet the second requirement, individual members must be in substantially the same position as if they had spent their own funds to conduct the event, without [REDACTED] existence. However, after allocating income and expenses to member and nonmember sources, [REDACTED] would have incurred a loss of \$ [REDACTED] and \$ [REDACTED] in [REDACTED] and [REDACTED], respectively, if only members had attended the event. This indicates that funds from nonmember sources are being used to subsidize the cost of the event for members.

Additionally, [REDACTED] failed to provide records as required under Section 6033(a)(1) and Section 1.6001-1(e) of the Regulations. [REDACTED] failed to provide financial information requested by the agent to verify the source of receipts and did not provide documents that show the [REDACTED] reimbursements were supported by an invoice or pre-approved rate, such as mileage or per diem. The agent was unable to determine if [REDACTED] was operating for an exempt purpose from the financial records that were provided.

Overall, the lack of other opportunities for members to interact, the high percentage of nonmember attendance at the event, and lack of record-keeping support the government's position that [REDACTED] does not meet the requirements to be exempt under Section 501(c)(7). Aside from the initial exclusivity of a member invite, there is little to distinguish the annual event from a commercial food event.

CONCLUSION:

Based on the available records and information provided, [REDACTED] fails to meet the requirements for an organization exempt under Section 501(c)(7). Other than the [REDACTED] event, members did not meet and socialize. Excess revenue from nonmembers were used to subsize [REDACTED] expenses. [REDACTED] failed to meet recordkeeping requirements for an organization exempt under Section 501(c)(7). Accordingly, [REDACTED] should be disqualified for the tax periods ending [REDACTED], and [REDACTED].

Should this disqualification be upheld, [REDACTED] must file [REDACTED], starting with the tax period ending [REDACTED].