



Department of the Treasury Internal
Revenue Service
Tax Exempt and Government Entities
Exempt Organization Examinations
550 Main Street
Cincinnati, OH, 45202-3222

Date:
August 10, 2023
Taxpayer ID number (last 4 digits):

Form:
990
Tax periods ended:

Release Number: 202344016
Release Date: 11/3/2023
UIL Code: 501.03-00

Person to contact:
Name:
ID number:
Telephone:
Fax:
Last day to file petition with United States
Tax Court:
Tuesday, November 7, 2023

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: Your gross receipts for the periods ending and exceeded percent from non-member income. Under Treasury Regulation Section 1.501(c)(7)-1(a) Public Law 94-568 amended the "exclusive" provision to read "substantially" in order to allow a Section 501(c)(7) organization to receive up to percent of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. However, within this percent amount, not more than percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. As such, you failed to limit gross receipts from the public. This, coupled with the fact that you allowed the general public to use your facilities, shows that you engaged in a business and are not being operated for pleasure, recreation, or other non-profitable purposes. Therefore, your Organization no longer operates in furtherance of IRC Section 501(c)(7).

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**.

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:

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

Director, Exempt Organizations Examinations

Enclosures:

Copy of this letter

Publication 1

Publication 594

Publication 892

cc: (Representative)



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

Date:
April 28, 2023
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:
May 26, 2023

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,

**Omar
Garcia**

Digitally signed by
Omar Garcia
Date: 2023.04.28
14:53:59 -05'00'

For

Lynn Brinkley
Director, Exempt Organizations
Examinations

Enclosures:

Form 886-A

Form 6018

Publication 892

Publication 3498

Form 886-A (May 2017)	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 the _____ will continue to qualify as an exempt social club under Section 501(c)(7) of the Code?

FACTS:

The _____ (the “_____”) was granted exemption as a social _____ exempt from federal income tax under Internal Revenue Code Section 501(c)(7) pursuant to a ruling issued on _____. The _____ purposes as stated in its bylaws are:

The _____ principal activities are providing facilities and services for the pleasure and recreation of its members, their guests, and non-members. They operate a bar, a golf course, pool, and ballroom. The _____ allows non-members to attend the _____ facilities and participate in events.

During the examination, it was determined the _____ receives income from non-members. The _____ Form 990 return for the period ending _____, and prior and subsequent year Form 990 returns indicate the percent of gross receipts from non-member use of facilities exceeded _____. The percentages of gross receipts from non-members were derived by dividing total gross receipts from the public’s use of the _____ facilities reported by total gross receipts reported for the tax periods ending _____, _____, and _____.

Year/Period Ended	% Of gross receipts from nonmember use

LAW:

Internal Revenue Code Section 501(c)(7) provides, clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all 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.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Section 1.501(c)(7)-1 of the Income Tax Regulations, relating to the requirements of exemption of such clubs under Section 501(a), reads in part as follows:

(a) 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 nonprofitable purposes, but does not apply to any club if its net earnings inure 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.

(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized, and operated exclusively for pleasure, recreation, and other non-profitable purposes and is not exempt under Section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption.

Prior to its amendment in 1976, Internal Revenue Code Section 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 a Section 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 further states:

(a) 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 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. These percentages supersede those provided in Revenue Ruling 71-17, 1971-1 C.B. 683.

(b) Thus, a social club may receive investment income up to the full 35 percent of its gross receipts if no income is received from non-members' use of club facilities.

(c) In addition, the Committee Reports state 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.

(d) The Senate report also indicates that even though gross receipts from the general public exceed this standard, it does not necessarily establish that there is a nonexempt purpose. A

Form 886-A (May 2017)	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

conclusion that there is a nonexempt purpose will be based on all the facts and circumstances including, but not limited to, the gross receipts factor.

If a club exceeds the 15/35% test, then it will maintain its exempt status only if it can show through facts and circumstances that “substantially all” of its activities are for “pleasure, recreation and other nonprofitable purposes.”

The following are important facts and circumstances to take into account to determine whether a club may maintain its exemption under Internal Revenue Code 501(c)(7):

- The actual percentage of nonmember receipts and/or investment income.
- Frequency of use of the club facilities or services by non-members. An unusual or single event (that is, nonrecurring on a year-to-year basis) that generates all the nonmember income is viewed more favorably than nonmember income arising from frequent use by non-members.
- Record of nonmember use over a period of years. A high percentage in one year by non-members, with the other years being within permitted levels, is viewed more favorably than a consistent pattern of exceeding the limits, even by relatively small amounts. (See S. Rept. 94-1318, 2d Sess., 1976-2 C.B. 597,599).
- Purposes for which the club’s facilities were made available to non-members.

TAXPAYER’S POSITION:

The _____ has agreed to the proposed revocation of their tax-exempt status as described in Internal Revenue Code Section 501(c)(7).

GOVERNMENT’S POSITION:

An organization exempt from federal income taxes as described in Internal Revenue Code Section 501(c)(7) must meet the gross receipts test in order to maintain its exemption. In order to meet the gross receipts test, an organization can receive up to _____ (_____ %) of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. Within this _____ % amount, not more than _____ % of the gross receipts should be derived from the use of a social club’s facilities or services by non-members.

_____ has exceeded the _____ % gross receipts standard for nonmember income on a continuous basis for the periods ending _____, _____, and _____.

Based on the large percentage of gross receipts from non-member to total gross receipts, (i.e., _____ %, _____ %, and _____ % as noted in the table above), which exceeds the limitation of _____ % as set forth by Internal Revenue Code 501(c)(7), and the fact that non-member use of the _____’s facilities is

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recurring, consistent year after year, and for the purpose of generating income for the , it is the Government's position that the is no longer operated exclusively for the pleasure and recreation of its members and is not exempt under Section 501(c)(7).

CONCLUSION:

The Internal Revenue Code Section 501(c)(7) tax exempt status of should be revoked since the gross receipts from non-members received by the exceeded % of the 's total gross receipts for the year under examination and for prior and subsequent years reviewed. Furthermore, it allows use of their facilities to the general public reflecting evidence that the is engaged in a business and is not being "operated substantially for pleasure, recreation, or other nonprofitable purposes."

no longer meets the requirements to qualify as exempt from federal income tax under Internal Revenue Code Section 501(a) as described in Section 501(c)(7). Therefore, your exempt status under 501(c)(7) of the Internal Revenue Code will be revoked effective

As a taxable entity, the organization is required to file Form 1120, U.S. Corporation Income Tax Return for the periods open under statute. Under Internal Revenue Code Section 6501(g) these periods include the years ending , and subsequent tax years.

Additionally, the organization is reminded to review provisions of Internal Revenue Code 277 concerning membership organizations which are not exempt organizations.