



Department of the Treasury
Internal Revenue Service
Independent Office of Appeals

Date: **OCT 12 2023**

Person to contact:
Name:
Employee ID Number:
Phone:
Fax:
Employer ID number:

Uniform issue list (UIL):
501.07-05

Release Number: 202401018

Release Date: 1/5/2024

Certified Mail

Dear :

This is a final adverse determination that you do not 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) .

We have hereby revoked the favorable determination letter to you dated and you are no longer exempt under IRC Section 501(a) effective 01/01/2023.

We made the adverse determination for the following reasons:

You are not organized for pleasure, recreation, and other nonprofitable purposes because a substantial amount of your activities (gas leasing) is not in furtherance of exempt purpose under IRC section 501(c)(7), regulations, and applicable revenue rulings, and may have caused inurement.

You're required to file federal income tax returns on Forms 1120, U.S. Corporation Income Tax Return. Mail your form to the appropriate Internal Revenue Service Center per the form's instructions. You can get forms and instructions by visiting our website at [IRS.gov/forms](https://www.irs.gov/forms) or by calling 800-TAX-FORM (800-829-3676).

We'll make this letter and the proposed adverse determination letter available for public inspection under IRC Section 6110 after deleting certain identifying information. We provided to you, in a separate mailing, Notice 437, Notice of Intention to Disclose. Please review the Notice 437 and the documents attached that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437.

If you decide to contest this determination, you can file an action for declaratory judgment under the provisions of IRC Section 7428 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:

U.S. Court of Federal Claims
717 Madison Place, NW
Washington, DC 20439
usefc.uscourts.gov

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

Note: We will not delay processing income tax returns and assessing any taxes due even if you file a petition for declaratory judgment under IRC Section 7428.

Taxpayer rights and sources for assistance

The Internal Revenue Code (IRC) gives taxpayers specific rights. The Taxpayer Bill of Rights groups these into 10 fundamental rights. See IRC Section 7803(a)(3). IRS employees are responsible for being familiar with and following these rights. For additional information about your taxpayer rights, please see the enclosed Publication 1, Your Rights as a Taxpayer, or visit [IRS.gov/taxpayer-bill-of-rights](https://irs.gov/taxpayer-bill-of-rights).

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that helps taxpayers and protects taxpayers' rights. TAS can offer you help if your tax problem is causing a financial difficulty, you've tried but been unable to resolve your issue with the IRS, or you believe an IRS system, process, or procedure isn't working as it should. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. To learn more, visit taxpayeradvocate.irs.gov or call 877-777-4778.

Tax professionals who are independent from the IRS may be able to help you.

Low Income Taxpayer Clinics (LITCs) can represent low-income persons before the IRS or in court. LITCs can also help persons who speak English as a second language. Any services provided by an LITC must be for free or a small fee. To find an LITC near you:

- Go to taxpayeradvocate.irs.gov/litcmap;
- Download IRS Publication 4134, Low Income Taxpayer Clinic List, available at [IRS.gov/forms](https://irs.gov/forms); or
- Call the IRS toll-free at 800-829-3676 and ask for a copy of Publication 4134.

State bar associations, state or local societies of accountants or enrolled agents, or other nonprofit tax professional organizations may also be able to provide referrals.

TAS assistance is not a substitute for established IRS procedures, such as the formal appeals process. TAS cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States Court.

If you have questions, contact the person at the top of this letter.

Sincerely,



Doug O'Donnell
Acting Commissioner
By

Appeals Team Manager

Enclosures:
Publication 1
IRS Appeals Survey

cc:



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

Date: October 27, 2021
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:
November 12, 2021

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

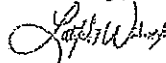
The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance,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



For:

Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:
Form 886-A
Form 6018

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	Year/Period ended

Issue:

_____ has failed to meet the eligibility requirements under Internal Revenue Code Section 501(c)(7) as the organization's investment income has exceeded the limit of non-member income imposed by the Code. Because the organization has consistently exceeded the 35-percent non-member income limit; should the organization retain its tax-exempt status under the Internal Revenue Code 501(c)(7)?

Facts:

_____ was organized under _____ State Law on _____

_____ filed form 1024 for exemption under IRC 501(c)(7) on _____

_____ received Determination Letter 948 (DO/CG) on _____, granting the organization tax exempt status under IRC Section 501(c)(7).

_____ primary purpose is promoting the conservation of forests, fields and streams of the State of _____, promoting better fishing and hunting in the State.

_____ maintains a property in _____, in _____.
The organization's members meet and conduct the club's activities on this property.

_____ had approximately _____ members during the year under examination.

_____ through _____ has filed a _____ for the tax years ending _____.

_____ through tax year ending _____ has filed a _____ for the tax years ending _____.

The Service has reviewed the _____ and _____ reporting period starting _____ and ending _____.

In _____, the organization entered into an agreement to sell their gas / mineral rights.

The income received from the promissory note has been reported on their _____ and _____ for the period of _____ through _____.

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	Year/Period ended

Facts (Continued):

The organization has reported the following amounts for Investment Income and Royalties (Non-Member sourced Income) on their books and records and on their _____ and _____ returns for the Tax Year Ending:

, Non-member Income of \$	which is	-percent of the total income of \$
, Non-member Income of \$	which is	-percent of the total income of \$
, Non-member Income of \$	which is	-percent of the total income of \$

Law:

Internal Revenue Code § 501(c)(7) – Social Clubs

Clubs organized for pleasure, recreation, and other nonproftable 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 1.501(c)(7)-1 Social Clubs

(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 nonproftable 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.

(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 nonproftable 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.

P.L. 94-568

Before 1976, IRC Section 501(c)(7) required a tax-exempt club to be organized and operated “exclusively” for pleasure, recreation, and other nonproftable purposes. P.L. 94-568 amended IRC Section 501(c)(7) to require that “substantially all” of a tax-exempt club’s activities are dedicated for pleasure, recreation, and other nonproftable purposes. The amendment was intended to allow IRC Section 501(c)(7) organizations to receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. See S. Rep. No. 94-1318 (1976). Within the 35 percent, no more than 15 percent of gross receipts should come from the general public’s use of the social club’s facilities or services. If an organization has outside income over the 35-percent or 15-percent limit, the organization is in jeopardy of losing their tax-exempt status.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Law (Continued):

Revenue Ruling 66-149

Rev. Rul. 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.

Adirondack League Club, Petitioner v. C.I.R. Respondent

Petitioner is a nonprofit New York membership corporation organized and operated for: (1) The preservation and conservation of the Adirondack forests and the proper protection of game and fish in the Adirondack Region. (2) The establishment and promotion of an improved system of forestry. (3) The maintenance of an ample preserve for the benefit of its members for the purpose of hunting, fishing, rest, and recreation. Petitioner lost its tax-exempt status as of 1943 upon respondent's determination that petitioner received a substantial amount of income from timber operations conducted on its property. Aside from its timber income, petitioner collected membership dues and charged fees for the facilities and services used by members and their guests. The expenses incurred in maintaining and providing the facilities and services exceeded the membership dues and fees charged for them and petitioner offset the excess expenses against the timber income with the result that petitioner reported no taxable income during the years in issue. Held, to the extent the expenses incurred in maintaining and providing facilities and services for members exceeded the income received therefrom, they are not deductible under sec. 162(a), since they did not arise from the 'carrying on of any trade or business' within the intendment of that section.

Coastal Club, Inc., 43 T.C. 783 (1965)

By transactions entered into for profit petitioner, a corporation, organized as a duck hunting club, repeatedly leased its property for the exploration for and production of oil and gas. During the years in issue the oil and gas income predominantly exceeded the amounts received from its members in the form of dues, and service and guest charges, and supplied from in excess of two-thirds to as much as four-fifths of the amounts required and expended for operations, repairs, maintenance, and improvements. And not only that but through such income plus the interest from U.S. Government bonds in which the oil and gas income remaining after payment of club costs had been invested, petitioner built its accumulated surplus. It was held, that respondent did not err in his determination that petitioner, during the taxable years, was not exempt from tax under section 501(c)(7) of the Internal Revenue Code. It was further held, that respondent did not abuse his discretion in revoking his prior ruling of exemption.

West Side Tennis Club v. Commissioner (111 F.2d 6)

The court determined that more than an insubstantial amount of income received from non-members would jeopardize the tax-exempt status of an organization described in IRC § 501 (c)(7).

Taxpayer Position:

The taxpayer has not provided a position at this time.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Government Position:

investment income has consistently exceeded the 35-percent non-member income limit imposed by the Code. The organization entered into an agreement to sell their gas / mineral rights. The organization has been reporting the investment income on their and

The organization has consistently exceeded the 35-percent limit imposed under the Code. The Service has provided the information reported on the organization's returns for the periods starting on and ending on

Below are the calculations of the Percentage of Total Revenue for all income sources for

MEMBER INCOME			
Contributions / Grants	\$		\$
Program Service Revenue			
Other Income			
Member Sourced Income	\$		\$
Member Income Percent		%	%
NON-MEMBER INCOME			
Investment Income	\$		\$
Royalties			
Non-Member Sourced Income	\$		\$
Non-Member Income Percent		%	%
TOTAL REVENUE			
	\$		\$

Using the information obtained from the organization's records and the information previously reported on filed returns, the Investment Income and Royalties as a percentage of Total Revenue, the organization has consistently exceeded the 35-percent non-member income limit imposed by the Internal Revenue Code.

Social clubs are permitted to receive income from non-member sources, but when that income exceeds 35-percent, the organization's exemption is in jeopardy of being revoked. As the organization has consistently exceeded the limits imposed by the Internal Revenue Code, the Treasury Regulations, and further specified in Public Law 94-568. Also, as per the terms of the agreement, the organization's investment income and royalties will continue to exceed the Code limits for the foreseeable future.

As the organization has egregiously exceeded the non-member limits imposed by the code there is no way that the organization can retain its tax-exempt status. The organization has reported non-member income that has averaged approximately -percent of their total income during the period examined.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Conclusion:

The _____ action of entering into an agreement to sell their gas and mineral rights has led to the generation of non-member investment income and royalties. The income generated on the sale of the drilling rights, as evidenced on the _____ in the agreement, made by the organization, has caused the organization to consistently exceed the 35-percent non-member income limit imposed by the Internal Revenue Code.

This has led to the determination that the organization is no longer qualified under Internal Revenue Code Section 501(c)(1), and the organization's tax-exempt status must be revoked.