



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

Date:
11/07/2024
Employer ID number:

Form you must file:
1120
Tax years:
All
Person to contact:

Release Number: 202505023
Release Date: 1/31/2025
UIL Code: 501.07-00,
501.07-01

Dear :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(7). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

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

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

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

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437
Redacted Letter 4034



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

Date: 9/9/2024

Employer ID number:

Person to contact:

Name:

ID number:

Telephone:

Fax: 855-847-9975

Legend:

B = Date

C = State

D = Name

E = Name

f dollars = Amount

g dollars = Amount

h dollars = Amount

j dollars = Amount

UIL:

501.07-00

501.07-01

Dear _____ :

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

Issues

Do you qualify for exemption under IRC Section 501(c)(7)? No, for the reasons stated below.

Facts

You incorporated on B, in the state of C as a nonprofit mutual benefit corporation. Your purpose is connecting members to give and receive business referrals. Your sole activity is to organize weekly meetings and networking events for your members to connect and refer business to one another. You are a membership organization, and your membership is open to the public. Your monthly membership fee is f dollars, with an initial one-time fee of g dollars.

You have only one membership class. Membership is owned by the individual or the company that paid the initial membership fee. Membership is not transferable. Each member represents one business category, which means that one member's designated product or service cannot be sold, promoted, or mentioned by another member in the chapter. Members are from all types of professional fields, such as advertising, law,

mechanic/auto body repair, accounting/bookkeeping, business consultancy, financial services, insurance, web development, virtual assistant services, among others.

You are a chapter of D, a for-profit corporation that provides you with guidance in terms of the rules and regulations for your networking chapter. Your members have a direct relationship with D. They pay h dollars to join D's network, and j dollars annually thereon to keep their membership. D sets the standard in the word-of-mouth referral industry and professional business networking groups. Chapters meet weekly to exchange qualified leads, build solid business relationships, develop strong presentation skills, and become proficient networkers.

You organize weekly meetings for the purpose of facilitating business referrals among your members. Meetings are held online or in a rented facility, such as hotels, recreational centers, or restaurants. All your time is allocated to the weekly meetings. Your activity is funded by the dues paid by your members. You help your members improve their network and grow professionally. You claim on your website that word-of-mouth is the best way to get business, and that you have brought millions of dollars in revenues for your members.

Members are required to attend a minimum of one formal lunch a month or engage in a one-on-one visitation with another member. Failure to do so will result in a fine for each month missed. In your meetings, you present a quarterly report called Tip Master's report, that summarizes total tips for the quarter and ranks members by the number of tips provided, from low to top tippers. A non-member needs to attend two consecutive meetings, then submit an application and arrange for an inspection of their business to be considered for membership.

Your referral system, as explained in your bylaws, requires that each member gives a minimum number of referrals per month to another member. The first time a member fails to meet the referral requirement, a warning letter is sent to that member advising that membership could be terminated. Members are encouraged to use E to pass tips and record "thank you".

Law

IRC Section 501(c)(7) exempts from federal income tax, 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.

Treasury Regulation Section 1.501(c)(7)-1(a) states that the exemption provided by IRC Section 501(a) for an organization 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 inure to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues and assessments.

Treas. Reg. Section 1.501(c)(7)-1(b) states that 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 IRC Section 501(a).

Revenue Ruling 58-589, 1958-2 C.B. 266, set forth the criteria for exemption under IRC Section 501(c)(7) and provides that a club may lose its exemption if it makes its facilities available to the general public. A club will not be denied exemption merely because it receives income from the general public provided such participation

is incidental to and in furtherance of its general club purposes. To retain exemption a club must not enter outside activities with the purpose of deriving profit. If such income producing activities are other than incidental, trivial or nonrecurrent, it will be considered that they are designed to produce income and will defeat exemption.

Revenue Ruling 69-527, 1969-2 C.B. 125, held that a social club formed to assist its members in their business endeavors through study and discussion of problems and other activities at weekly luncheon meetings did not qualify for exemption under IRC Section 501(c)(7) because it was not organized and operated exclusively to serve the pleasure, recreation, or other similar social purposes of its members. The organization was created to aid its members in their individual business endeavors, and any social activities at the luncheon meetings are merely incidental to the business activities of the organization.

Application of law

You do not meet the requirements of IRC Section 501(c)(7), because your activities are not conducted for pleasure, recreation, or other nonprofitable purposes. You are formed for the benefit of your members by facilitating their networking activities, and business referrals on your weekly meetings.

You do not meet the requirements of Treas. Reg. 1.501(c)(7)-1(a) because you are not operated for pleasure, recreation and other nonprofitable purposes. Your activities of organizing events for your members to connect and conduct business referrals are not incidental and benefit their private interests. Per Treas. Reg. 1.501(c)(7)-1(b) a club that engages in business activities is not being operated exclusively for pleasure, recreation, or social purposes, if these activities are not incidental. Your primary purpose is to engage in the business of facilitating business referrals among your members. For these reasons you do not qualify for exemption under IRC Section 501(c)(7).

You do not fulfill the criteria of organizations that operate within the provisions of IRC Section 501(c)(7) described in Rev. Rul. 58-589. Contrary to the requirements that an organization must establish that it is a club operated exclusively for pleasure, recreation and other nonprofitable purposes and that no part of its net earnings inures to the benefit of any private individual, your business activities are not incidental, trivial or nonrecurrent, and benefit the private interests of your members.

Similar to the organization in Rev. Rul. 69-527 that did not qualify for exemption under IRC Section 501(c)(7), you are not operated for social and recreational purposes, you provide a service to your members in facilitating business referrals among themselves. Your members interact with each other on your meetings with the goal of referring business to one another. The social interactions that may come about are incidental to the business referrals activities conducted in your meetings.

Conclusion

By primarily facilitating business referrals for your members, you are engaging in a business activity, and you are not operated for pleasure, recreation or other nonprofitable purposes as described in IRC Section 501(c)(7). Your goal is to help your members grow professionally and improve their businesses network. Therefore, you do not qualify for exemption under Section 501(c)(7).

If you agree

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

your income tax filing requirements.

If you don't agree

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

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

For an officer, director, trustee, or other official who is authorized to sign for the organization:
Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

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

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

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

Where to send your protest

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

U.S. mail:

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

Street address for delivery service:

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

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

You can get the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676). If you have questions, you can contact the person listed at the top of this letter.

Contacting the Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or if you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 877-777-4778.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements