



Department of the Treasury
Internal Revenue Service

Release Number: 202552029
Release Date: 12/26/2025
UIL Code: 501.07-00

Date:

Taxpayer ID number (last 4 digits):

Form:

990 Return

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Last day to file petition with United States
Tax Court:

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:

does not meet the requirements to qualify as a 501(c)(7) exempt organization. You have not established that you are operated substantially for pleasure and recreation of your members or other non-profitable purposes and that no part of the earnings inures to the benefit of private individuals within the meaning of IRC Section 501(c)(7). You do not hold member meetings or gatherings, and your primary and main activity is called which generates income in the form of entrance fees. You allow unrestricted public attendance to this dog show, and charge entry fees in the . You have failed to show that any income earned from supports charitable or any other exempt purpose. By conducting a open to the public and charging entrance fees, you are engaging in a regular trade or business and derive a significant profit from the activity. You receive the majority of your income from nonmember sources on a regular and recurring basis. The organization may receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. However, no more than 15% of the amount may be derived from use of the club's facilities or services by the general public or from other activities not furthering social or recreational purposes for members. As a result, you do not operate 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

What you must do if you disagree with this determination

If you want to contest our final determination, you have days from the date this determination letter was mailed to you to file a petition or complaint in one of the 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:

Letter 6337

Catalog Number

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for [REDACTED]

You must file a petition or complaint in one of these three courts within [REDACTED] 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 [REDACTED]. 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

[REDACTED]

The websites of the U.S. Court of Federal Claims and the U.S. District Court for [REDACTED] 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

[REDACTED]

US District Court for the [REDACTED]

[REDACTED]

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.

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 if 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. Visit [REDACTED] or call [REDACTED] to find the location and phone number of your local advocate. Learn more about TAS and your rights under the Taxpayer Bill of Rights at [REDACTED]. Do not send your Tax Court petition to TAS. Use the Tax Court address provided earlier in the letter. Contacting TAS does not extend the time to file a petition.

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 [REDACTED] or calling [REDACTED]. 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,



Enclosures:

Publication 1

Publication 594

Publication 892

cc:





Department of the Treasury
Internal Revenue Service

[Redacted]
[Redacted]
[Redacted]
[Redacted]

Date:

Taxpayer ID number:

Form:

990

Tax periods ended:

Person to contact:

Name: [Redacted]

ID number: [Redacted]

Telephone: [Redacted]

Fax: [Redacted]

Manager's contact information:

Name: [Redacted]

ID number: [Redacted]

Telephone: [Redacted]

Response due date:

[Redacted]

CERTIFIED MAIL – Return Receipt Requested

Dear [Redacted]:

Why you're receiving this letter

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.

Letter 3618

Catalog Number

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 [REDACTED] 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 [REDACTED].

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 [REDACTED].

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

Sincerely,

[REDACTED]

Group Manager

Enclosures:

Form 886-A

Form 4621

Form 6018

Publication 5

Publication 892

Publication 3498

cc: [REDACTED]

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

Issues:

Whether (the "Organization") will continue to qualify as an exempt social club under Internal Revenue Code (IRC) Section (Sec.) 501(c)(7)?

Facts

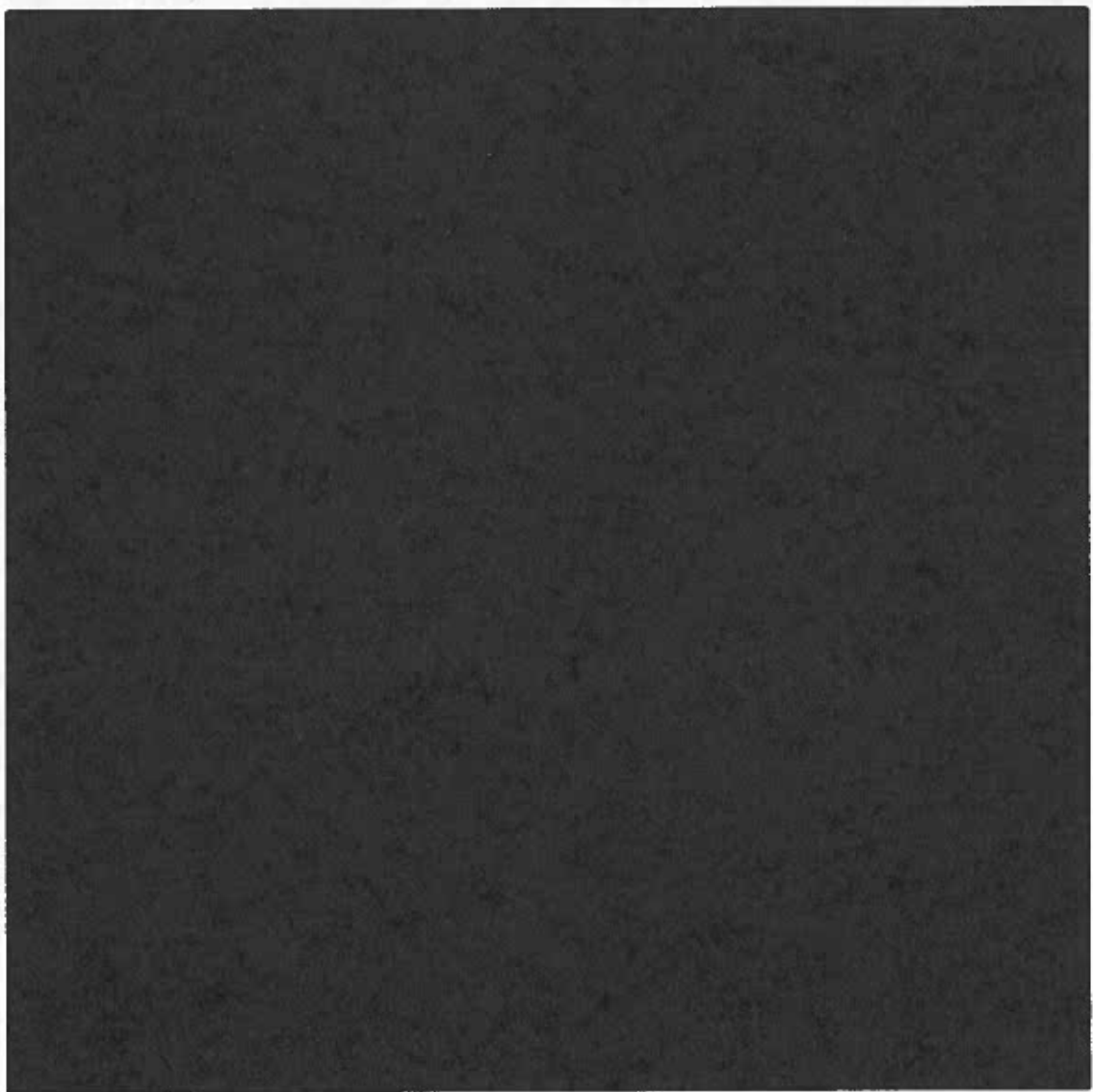
The Organization submitted Form 1025, *Exemption Application*, on , requesting exempt status under IRC Sec. 501(c)(7). The Organization was granted exemption from Federal income tax as a social club under IRC Sec. 501(c)(7) pursuant to a ruling issued on . The Organization's purpose as stated in its Articles of Incorporation are: "

"

The Organization has a separate program called that is open to members. The purpose of the program is to give diverse educational opportunities to its members to improve their knowledge and abilities to conduct and improve . This program only allows for members and each member must receive an invitation from Executive Committee. However, the is not the organization's primary activity.

The Organization's primary activity is to hold " " which is a . It was later confirmed during the interview held on , when Agent asked the Officer what the organization's activities are and the officer stated that the organization's primary activity is the . The organization advertises the on its website with a headline " . In addition, Agent asked the Officer if the organization's show is open for the public and the officer stated the show is open to the public and in their website, the show was listed open to both members and nonmembers. Furthermore, the organization produce the show's catalog and highlights that "the show will be advertised and open to the public." Everyone is allowed to at where the show is being held. They have options to choose from \$ for day pass, \$ for -day pass, or \$ for -day pass for the parking fees.

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Traditional clubs typically thrive on a network of members who engage in regular, face-to-face interactions, creating an exclusive, private community. These interactions are defining feature, fostering a sense of belonging. However, the [REDACTED] does not offer a private or exclusive social environment, as it is open to the public. Without members-only gatherings or exclusive interactions, the [REDACTED] is considered a nontraditional activity.

Additionally, Agent asked the officer during the interview held on [REDACTED] if the organization tracks records to differentiate between the member and nonmember income, the officer stated they do not keep track records the nonmember income for the [REDACTED]. The Organization's profit/loss income statement, show income received by the Organization includes membership dues, grants, and donations, members and nonmembers participating in the show that includes the entries fees, logo items sales, parking fees, vendor fees, catalog, trophy donations, and advertising.

The Organization's [REDACTED] Form 990, *Return of Organization Exempt From Income Tax*, indicate the percent of gross receipts from nonmembers participating in the show exceeded 35% beginning with tax period continuing through [REDACTED], while investment income was less than [REDACTED] % for all years. See the table below for the investment income and nonmember use income as reported on the Organization's Form 990, for the tax periods through [REDACTED] :

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Year	Gross Income	Gross Member Income	Gross Investment Income	Gross Nonmember Income	% of Nonmember Income

Law

IRC Sec. 501(c)(7) provides exemption from income taxes for clubs organized for pleasure, recreation, and other nonprofitable 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.

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 nonproftable purposes, but does not apply to any club if 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

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for pleasure, recreation, and other nonprofitable 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.

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 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:

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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 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.

Legislative History

Public Law 94-568 amended the "exclusive" provision to read "substantially" in order to allow an IRC Sec. 501(c)(7) organization to receive up to 35 percent of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) further states;

- (a) Within the 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from non-members, so long as the latter do not represent more than 15 percent of total receipts.
- (b) Thus, a social club may receive investment income up to the full 35 percent of its gross receipts if no income is derived from non-members' use of club facilities.

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(c) In addition, the Committee Report states that where a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facilities, that income is not to be included in the 35 percent formula.

If an organization has outside income in excess of the 35-percent limit (or 15-percent limit in the case of gross receipts derived from nonmember use of a club's facilities), all the facts and circumstances are to be taken into account in determining whether the organization qualifies for exempt status.

Court Cases

Pittsburgh Press Club v. USA, 536 F.2d 572, (1976), The Court of Appeals in this case has indicated some factors to consider in determining exempt status.

Factors to consider in applying this test include:

- The actual percentage of nonmember receipts and/or investment income.
- The frequency of nonmember use of club facilities. (An unusual or single event (that is, non-recurrent on a year to year basis) that generates all the nonmember income should be viewed more favorably than nonmember income arising from frequent use by nonmembers).
- The number of years the percentage has been exceeded. (The record over a period of years is also relevant. The high percentage in one year, with the other years being within the permitted levels, should be viewed more favorably to the organization than a consistent pattern of exceeding the limits, even by relatively small amounts).
- The purposes for which the club's facilities were made available to nonmembers.
- Whether the nonmember income generates net profits for the organization. Profits derived from nonmembers, unless set aside, subsidize the club's activities for members and result in inurement within the meaning of IRC Sec. 501(c)(7).

Santa Barbara Club v. Commissioner, 68 T.C. 200 (1977) held that Petitioner, a corporation organized as a social club, sold bottled liquor to its members for consumption away from the club's premises. For each year in issue, such sales exceeded 25 percent of the club's total gross receipts. It was held that the petitioner was not operated exclusively for exempt purposes and did not qualify for tax exemption under sec. 501(c)(7).

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Petitioner, a corporation organized as a social club, sold bottled liquor to its members for consumption away from the club's premises. For each year in issue, such sales exceeded 25 percent of the club's total gross receipts. Held, petitioner was not operated exclusively for exempt purposes and did not qualify for tax exemption under sec. 501(c)(7), I.R.C. 1954.

Revenue Ruling 58-589 sets forth the criteria for exemption under section 501(c)(7) of the Code, and provides that a club must have an established membership of individuals, personal contacts, and fellowship. It also provides that, while the regulations indicate that a club may lose its exemption if it makes its facilities available to the general public, this does not mean that any dealings with nonmembers will automatically cause a club to lose its exemption. A club may receive some income from the general public, that is, persons other than members and their bona fide guests, or permit the general public to participate in its affairs, provided that such participation is incidental to and in furtherance of the club's exempt purposes, such dealings with the general public and the receipt of income therefrom does not indicate the existence of a club purpose to make a profit, and the income does not inure to club members.

Revenue Ruling 60-324, 1960-2 C.B. 173 - states by making its social facilities available to the general public the club cannot be treated as being operated exclusively for pleasure, recreation or other non-profitable purposes.

Revenue Ruling 66-149, 1966-1 C.B. 146 - holds a social club as not exempt as an organization described in IRC Sec. 501(c)(7) where it derives a substantial part of its income from non-member sources.

Revenue Ruling 68-119 provides that a club will not necessarily lose its exemption if it derives income from transactions with other than bona fide members and their guests, or if the general public on occasion is permitted to participate in its affairs, provided such participation is incidental to and in furtherance of its general club purposes and the income therefrom does not inure to members.

Section 6001 of the Code states "Every person liable for any tax imposed by this 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 judgment 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."

Taxpayer's Position

The taxpayer's position is unknown at this time.

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Government's Position

For an organization to qualify for exemption under IRC Sec. 501(c)(7), they need to be a club organized for pleasure, recreation, and other nonprofit purposes of its bona fide members, substantially all of the activities of which are for such purposes, no part of the net earnings of which inures to the benefit of a private shareholder, and it must not have a written policy which discriminates against individuals seeking membership on the basis of race, color, or religion. The Organization no longer meets all of the requirements to continue to be exempt under IRC Sec. 501(c)(7) as no more than 35% of total income should be from nonmembers and investment income. The Club's nonmember income greatly exceeds this threshold, and even further, the income from nonmember use of the organization's facilities/service is more than the 15% threshold due to the being open to the public. As the is a nontraditional activity and it is primarily supported by nonmember income, this also jeopardizes the Club's 501(c)(7) exemption status.

An organization exempt from federal income taxes as described in IRC Sec. 501(c)(7) must meet the gross receipt test to keep its exemption. To meet the gross receipt test, an organization can receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. Within this 35% amount, not more than 15% of the gross receipts should be derived from the use of a club's facilities or services by nonmembers. Public Law 94-568, and the related Senate Report No. 94-1318, 2d Session, 1976-2 C.B. 597, states that the exemption of a social club exempt under 501(c)(7) of the Code is jeopardized if they receive over percent of their gross income from non-member use of facilities or services. The Organization has exceeded the 35% gross receipts standard for nonmember income on a continuous basis for at least years. The nonmember receipts are earned throughout the year. There was no or unusual event that caused the club to exceed the 35% threshold.

Upon examination, it was determined that the Organization did not comply with the recordkeeping requirements of Revenue Procedure 71-17, 1971-1 C.B. 683. However, the agent used the organization's profit and loss statement to determine the income received from outside of its membership. From examining the 990 returns for the periods ending and , and review of their books and records, the percentage of gross receipts from nonmember exceeded 35% for years of the exam, while investment income was less than for year in . The percentage of gross receipts from nonmember and investment income is noted in the following.

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Period Ended	Total Member Income (\$)	Total Nonmember Income (\$)	Total Investment Income (\$)	Total % investment income & nonmember income

The increasing trend of nonmember income can be seen in years and , the Organization received % and %, respectively, of its income from nonmembers, which places the Organization's exemption at risk for revocation. The facts and circumstances must be considered to determine whether the Organization continues to qualify for exemption.

The Committee Reports for Public Law 94-568 (Senate Report No. 94-1318 2nd Session, 1976-2 C.B. 597) states that if an organization has outside income in excess of 35-percent limit, all facts and circumstances are to be taken into account in determining whether the organization qualifies for exempt status. In *Pittsburgh Press Club v. United States*, the court considered five factors in its facts and circumstances analysis.

The five factors established in *Pittsburgh Press Club v. United States* are applied below:

- The actual percentage of nonmember receipts and/or investment income
 - – %, – %. Here, the percentage are considerably higher than the 35% allowed in the Code.
- The frequency of nonmember use of the club facilities. (An unusual or single event (that is, non-recurrent on a year to year basis) that generates all the nonmember income should be viewed more favorably than nonmember income arising from frequent use by nonmembers).
 - Here, the Organization permits almost unrestricted use of its . The is open and available for public to come every year. The nonmember income is not generated from a single or non-recurrent event but from frequent use by nonmembers participating in the Organization's

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- The number of years the percentage has been exceeded. (The record over a period of years is also relevant. The higher percentage in one year, with the others being within the permitted levels, should be viewed more favorably to the organization than a consistent pattern of exceeding the limits, even by relatively small amounts).
 - Here, the Organization has exceeded the 35% gross receipts standard for non-member income on a continuous basis for the last years as reported on the Organization's Form 990, in the chart below:

Year	Gross Income	Gross Member Income	Gross Investment Income	Gross Nonmember Income	% of Nonmember Income

- Whether the nonmember income generates net profits for the organization. Profits derived from nonmembers, unless set aside, subsidize the club's activities for members and result in inurement within the meaning of IRC Sec. 501(c)(7).
 - Here, it was determined, upon examination, that the costs directly attributable to nonmember attending its event. The profits derived from nonmember income inure to the Organization's members to pay for things that would otherwise be paid for the Organization's members such as club expenses.

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The facts and circumstances test outlined above, in accordance with *Pittsburgh Press Club v. United States*, demonstrates that the Organization operates similarly to a for-profit business. The Organization advertises and open its event to the public. Year after year, the Organization receives a significant portion of its gross receipts allowed by the Internal Revenue Code from outside of its membership, and its profits inure to the benefits of its members.

Therefore, it is the government's position that the Organization is no longer operated exclusively for the pleasure and recreation of its members and is not exempt under IRC Sec. 501(c)(7).

Conclusion

It has been determined that the organization does not qualify for tax-exempt status under IRC Sec. 501(c)(7). Upon examination, the Organization was found to be non-compliant with the recordkeeping requirements of Revenue Procedure 71-17. The event is considered nontraditional due to the lack of face-to-face interactions and commingling. Additionally, the event is open to the general public, suggesting it is engaged in business activities rather than being operated exclusively for pleasure, recreation, or social purposes. Furthermore, the Organization's nonmember income significantly exceeds the limit established by Public Law 94-568. This reliance on nonmember income to fund operations result in private inurement to its members, disqualifying the organization from tax exemption under IRC Sec. 501(c)(7). Moreover, the organization is no longer operated exclusively for pleasure, recreation, or other nonprofitable purposes.

The Organization is no longer meets the requirements to qualify as exempt from federal income tax under IRC Sec. 501(a) as described in IRC Sec. 501(c)(7). Therefore, its 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 6501(g) these periods include the years ending , , and subsequent tax years.