



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

Date:
10/31/2025
Employer ID number:

Form you must file:

Tax years:

Person to contact:

Release Number: 202604002
Release Date: 1/23/2026
UIL Code: 501.00-00, 501.07-00

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
Redacted Letter 4038



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

Date:
09/15/2025
Employer ID number:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Legend:

B = Date
C = State
D = Date
E = Development
F = Number
G = Number
h percent = Percentage
j percent = Percentage
k percent = Percentage
m percent = Percentage
n percent = Percentage

UIL:
501.00-00
501.07-00

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 were formed on B in the state of C as a nonprofit corporation. The purposes stated in your restated and amended organizing document filed on D are to primarily provide for the management, maintenance, preservation, and architectural control of a certain single family residential development project known as E, to generally promote the health, safety, and welfare of the owners of lots located within E, and to exercise all powers, privileges, duties, and obligations as set forth in the Declaration of Covenants, Conditions, and Restrictions for E, including to fix, levy, collect, and enforce payment of any charges or assessments set forth in the aforementioned Declaration. You describe yourself as the homeowners association for E.

Within this Declaration, you are empowered to establish and enforce rules and regulations which regulate the appearance and exercise architectural control over all improvements made within E, including those improvements made on the lots owned by lot owners.

E consists of F homes on approximately G acres of land. You consider approximately h percent of the land within E to be your social and recreational areas, which consists of multiple parks, playgrounds, a club house, a swimming pool, a fitness center, walking trails, and all roadways. All of your social and recreational areas are open only to members and their guests.

You have two classes of members. One class consists of the owners of lots located in E, and the other, which currently has no members, is for the developer of E. At their sole discretion, the developer of E may become a member again if E is expanded through land annexation and certain conditions set out in your Declaration are met.

You state that the entirety of your time is spent promoting the health, safety, and welfare of the owners of E and to perform all duties and obligations set forth in the Declaration. You also state that nearly j percent of your collective time is dedicated to organizing and maintaining a variety of services for your residents "to ensure neighborhood engagement, well-being, and environmental stewardship," including the maintenance of your social and recreational areas and organizing events for the residents of E. You state that these activities foster recreation, social engagement, mental well-being, and environmental sustainability among your members.

You charge an annual assessment to all lot owners within E to fund your activities. This annual assessment, fines, and fees charged in accordance with your Declaration is your sole source of revenue. You state that approximately k percent of your expenses are dedicated towards maintaining your parks, landscaping, and amenities; m percent towards maintaining gates, a guard house, and a courtesy patrol; and n percent towards paying a management company to conduct your day-to-day operations.

Law

IRC Section 501(c)(7) provides for the exemption from federal income tax of 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.

Treasury Regulation Section 1.501(c)(7)-1(a) states that the exemption provided for organizations described in IRC 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 any part of its net earnings inures to the benefit of any private shareholder.

Revenue Ruling 69-281, 1969-1 C.B. 155, held that a social club providing exclusive and automatic membership to homeowners in a housing development, with no part of its earnings inuring development, and with no part of its earnings inuring to the benefit of any member, may qualify for exemption under IRC Section 501(c)(7).

Rev. Rul. 75-494, 1975-2 C.B. 214, held that a club providing social and recreational facilities, whose membership is limited to homeowners of a housing development, will be precluded from qualifying for exemption under IRC Section 501(c)(7) by owning and maintaining residential streets, enforcing restrictive covenants, or providing residential fire and police protection and trash collection service.

In Chattanooga Automobile Club v. Commissioner, 182 F.2d 551 (6th Cir. 1950), the court held that to be exempt under Section 101(9) of the Internal Revenue Code of 1939, a club must have been organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes. The court further found that “other non-profitable purposes” must be construed as coming within the same classification as pleasure and recreation. Section 101(9) of the 1939 Code was the precursor to the present Section 501(c)(7) of the 1986 Code.

Application of law

You are not described under IRC Section 501(c)(7) or Treas. Reg. Section 1.501(c)(7)-1(a) because a substantial part of your activities are not for pleasure, recreation, or other non-profitable purposes. While you state that j percent of your time is dedicated to social and recreational activities, these activities include providing all amenities to residents of E. Your amenities go beyond maintaining social and recreational facilities and include maintaining residential roads and pavements, maintaining the appearance and architectural control of all improvements within E, and providing a private security service.

You aren’t organized exclusively for pleasure, recreation, or other non-profitable purposes, as required by Treas. Reg. Section 1.501(c)(7)-1(a). Your organizing document does not contain provisions which limit your powers and purposes to those prescribed by Treas. Reg. Section 1.501(c)(7)-1(a).

You are not like the organization described in Rev. Rul. 69-281 because your activities are not limited to operating social and recreational facilities. As held in Rev. Rul. 75-494, you are precluded from exemption because you own and maintain residential streets that residents must travel on to reach your social and recreation facilities, enforce restrictive covenants, and provide a private security service to patrol all areas of E.

As held by Chattanooga Automobile Club, a club must be organized and operated substantially for pleasure, recreation, and other non-profitable purposes. You are not organized nor operated substantially for pleasure, recreation, and other non-profitable purposes. Maintaining residential roadways, enforcing restrictive covenants, and providing a residential security service does not further pleasure or recreational purposes and are not within the meaning of “other non-profitable purposes.”

Conclusion

You do not qualify for exemption under IRC Section 501(c)(7) because you are neither organized nor operated substantially for pleasure, recreation, or other non-profitable purposes. Maintaining residential roadways, enforcing restrictive covenants, and providing a private security service does not further pleasure, recreation, or other non-profitable purposes. For these reasons, 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