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

IRS

Date:
06/01/2026
Employer ID number:

Form you must file:

Tax years:

Person to contact:
Name:
ID number:
Telephone:

Release Number: 202635014
Release Date: 8/28/26
UIL Code: 501.07-00, 501.07-05

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

IRS

Date:
04/06/2026
Employer ID number:

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

Legend:
B = Date
C = State
D = Entity
E = Date
F = Date
G = Number
H = Number
J = County, State
x dollars = Dollars
y percent = Percent

UIL:
501.07-00
501.07-05

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 formed on B in the state of C as a nonprofit corporation. Your Articles of Incorporation state that you are formed for social and athletic purposes. You submitted a separate purpose statement that states that you promote the sport of riding and racing motorcycles through D sanctioned racing events annually. You also submitted a separate dissolution statement that states that, upon dissolution, any remaining funds will be released for the sole purpose of maintaining your charter with D.

You previously received exemption under IRC Section 501(c)(7) on E, effective back to B. Your exemption under Section 501(c)(7) was automatically revoked on F because you did not file Form 990-series Information Returns for three consecutive years.

You are a membership organization, with membership open to the public. Individuals who wish to become a member may do so voluntarily by completing an application, paying the annual dues of x dollars, attending your meetings, attending workdays prior to races, and attending and assisting on race days. You currently have G members. You have only one class of membership.

You host H motorcycle races per year on a private farm in J that are open to the public. These races provide a venue for the common interest of the sport to be enjoyed by members, and to promote the riding and racing of motorcycles. These races are funded by membership dues, gate fees for spectators from the public, and entry fees from racers. Members are not permitted to race in the races they host to ensure no cheating. All racing activities are conducted within the guidelines of the D. An insubstantial amount of time is spent each year hosting a holiday party for your members and holding meetings to plan and prepare for races. racers.

Your financial information showed your gross revenues consisted of income from racer and spectator entry fees. Since no members are allowed to race, all race entry fees and guests at events are members of other clubs or chapters of D. The only member income you receive is from annual dues. You estimate that, on average, y percent of your gross receipts are derived from nonmembers, which accounts for substantially all of your revenue.

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 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 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.

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 nonprofit purposes.

Revenue Ruling 58-589, 1958-2 C.B. 266, sets 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.

Rev. Rul. 66-149, 1966-1 C.B. 146, states a social club is not exempt from Federal income tax as an organization described in IRC Section 501(c)(7) where it regularly derives a substantial part of its income from non-member sources such as, for example, dividends and interest on investments which it owns. To the extent

that income is derived from non-member sources, it inures to the benefit of the members. If such activities are other than incidental, trivial, or nonrecurrent, it is considered that they are intended to produce income and are reflective of a purpose inconsistent with exemption under Section 501(c)(7).

Public Law 94-568, 1976-2 C.B. 596, changed the language of IRC Section 501(c)(7) from "operated exclusively for" to "substantially all" allowing Section 501(c)(7) organizations to receive some outside income without losing their exempt status. Explaining the new law, Senate Report 94-1318 noted that it is intended that these organizations be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their tax-exempt status. It is also intended that 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.

Application of law
IRC Section 501(c)(7) and Treas. Reg. Section l.501(c)(7)-l(a) provide for exemption of clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all the activities of which are for such purposes. There must be an established membership of individuals whose common objective is directed towards pleasure and recreation. The commingling of members actively working towards that objective must also play a substantial part in the existence of the club, in addition to the organization's gross receipts meeting the percentage requirements discussed in Senate Report 94-1318. You fail to meet these requirements as described below.

As described in Treas. Reg. Section 1.501(c)(7)-1(b), engaging in business, such as making your social and recreational facilities available to the general public, does not further pleasure, recreation, and other nonprofit purposes. You receive y percent of your total annual income from non-member entry and participation fees in your club activities. By opening your club facilities and activities to the general public, you are engaging in business activities that preclude exemption under IRC Section 501(c)(7).

As explained in Rev. Rul. 58-589, although you are permitted to receive some income from the general public, if that revenue is more than incidental, you will be precluded from exemption under IRC Section 501(c)(7). You host H motorcycle races annually that are open to the public. Members are not eligible to enter these races and instead pay membership dues. The general public pays gate fees and entry fees to attend and participate in these races. The income from public entry and participation is, on average, y percent of your total annual income. This shows that this income is not incidental and is instead your primary income source. Because you receive more than an incidental amount of funds from the general public, you are precluded from exemption under Section 501(c)(7).

You are like the organization described in Rev. Rul. 66-149, because you derive a substantial part of your income from non-member sources. Your gate fees and entry fees are not incidental, trivial, or nonrecurrent activities compared to your other activities or sources of revenues. By receiving the large majority of your income from the general public, you are operating outside the scope of operating for the pleasure and recreation of your members, which disqualifies you from exemption under Section 501(c)(7).

As noted in Senate Report 94-1318, explaining Public Law 94-568, it is intended that organizations described under IRC Section 501(c)(7) be permitted to receive up to 35 percent of their gross receipts from sources outside of their membership without losing their tax-exempt status. You receive y percent of your gross receipts from gate fees and entry fees from the public. This is substantially over the 35 percent limitation described in

Senate Report 94-1318. The facts show that you are using this non-member income as a primary source of revenue that enables you to finance your operations and reduce the overall dues charged to your members. While you may be organized for pleasure, recreation, and other nonprofitable purposes, it cannot be said that substantially all of your activities further these purposes, as your non-member income is substantial.

Conclusion
Based on the information you have provided you do not qualify for exemption under IRC Section 501(c)(7). You receive a disqualifying amount of your income from sources outside your membership which is substantially more than the 35 and 15 percent limitations discussed in Senate Report 94-1318.

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.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements