



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

Number: 202246016
Release Date: 11/18/2022

UIL: 501.07-00

Date:
March 1, 2022
Taxpayer ID number:

Form:

Tax periods ended:

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

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

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: 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 any private shareholder within the meaning of IRC Section 501(c)(7). You have made your recreational and social facilities available to the general public.

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 www.irs.gov.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of IRC Section 7428 in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims or 3) the United States District Court for the District of Columbia.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. You may write to the courts at the following addresses:

United States Tax Court
400 Second Street, NW
Washington, DC 20217

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

U.S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, DC 20001

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.

Information about the IRS Taxpayer Advocate Service

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 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. Contact your local Taxpayer Advocate Office at:

Or call TAS at 877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to taxpayeradvocate.irs.gov. Do not send your federal court pleading to the TAS address listed above. Use the applicable federal court address provided earlier in the letter. Contacting TAS does not extend the time to file an action for declaratory judgment.

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.

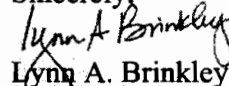
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

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.

Keep the original letter for your records.

Sincerely,



Lynn A. Brinkley

Acting Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892



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

Date:
September 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:

CERTIFIED MAIL – Return Receipt Requested

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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)(3) 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 4621-A
Publication 892
Publication 3498

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

ISSUE:

Whether substantial non-member activity and income jeopardize tax-exempt status.

FACTS:

(" ") is a recognized section 501(c)(7) organization. The received unrelated business income from non-member banquet food and bar sales, non-member banquet hall and equipment rentals, investment income and reciprocal income.

The has reciprocal arrangements with the and other in , , , , and .

A thorough examination of the books and records for the fiscal tax year ending revealed that the received % of its gross receipts from non-member income.

The received %, % and % of its gross receipts from non-member income during the fiscal years ending , and , respectively. As such, the has exceeded the nonmember gross receipts limitation of % in each of the last years.

The records are maintained in compliance with Revenue Procedure 71-17.

The Form and for the fiscal year ending were examined by the Internal Revenue Service. The results of the examination of fiscal year ending included an advisory to monitor its level of non-member receipts to ensure that it complies with Public Law 94-658. The advisory indicated that organizations exempt under Section 501(c)(7) jeopardizes its exempt statue if it receives gross receipts from non-member sources (defined as income from passive sources and gross receipts from non-member use of facilities or the sale of goods to non-members) in excess of % of total receipts. Also, within this % limit, no more than % of gross receipts may be derived from non-member use of the facilities.

LAW:

Internal Revenue Code section 501(c)(7) provides tax-exemption for social clubs where a social club has the essential requirement of providing for the recreation of its members. Treasury Regulation section 1.501(c)(7)-1(a).

However, a social club which makes its recreational facilities available to the public is not operating for non-profitable purposes. Treasury Regulations section 1.501(c)(7)-1(b).

According to Public Law 94-568, Senate Report Number 94-1318, social clubs are permitted to receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing exempt status. Within this 35 percent limit, not more

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

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.

However, the Senate Report also indicates that even though gross receipts from the public exceed this standard, it does not necessarily establish that there is a non-exempt purpose. A conclusion that there is a nonexempt purpose will be based on all the facts and circumstances including, but not limited to, the gross receipts factor.

The report does not specify any of the relevant facts and circumstances that should be considered. Other factors may include whether the profits from non-members have been used to subsidize club activities for members, the frequency of the activity and the profitability of the activity. The organization may maintain its exempt status if it can show through facts and circumstances that "substantially all" of its activities are for "pleasure, recreation, and other nonprofitable" purposes.

In court cases where organizations are revoked for excessive nonmember income, it appears that the clubs had a previous examination in which they were warned of the problem and had a chance to correct it. (Pittsburgh Press Club v. U.S.A.; Polish American Club v. Commissioner of Internal Revenue).

TAXPAYER'S POSITION: Unknown

GOVERNMENT'S POSITION:

For the fiscal year ending _____, _____ received _____ % of its gross receipts from non-member income. Therefore, the _____ has exceeded the permissible amount of non-member receipts of _____ % as outlined in Public Law 94-568 and Senate Report Number 94-1318. In fact, the _____ has exceeded the permissible amount of non-member receipts for at least the last _____ years.

Additionally, analysis of Form _____ for the fiscal year ending _____ demonstrates that the non-member activity was used to subsidize member activity as shown in the table below.

	<u>Gross</u>	<u>Exempt</u>	<u>Non-Exempt</u>
Gross Sales of Inventory	\$ _____	\$ _____	\$ _____
Less: COGS	\$ _____	\$ _____	\$ _____
Net Sales of Inventory	\$ _____	(\$ _____)	\$ _____

As such, a review of the facts and circumstances demonstrates that the _____ not only exceeded the 15% non-member income limit, it also used non-member income to subsidize member activity.

CONCLUSION: _____ tax-exempt status under section 501(c)(7) of the Internal Revenue Code is revoked as of _____.