



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

Date:  
July 11, 2022  
Taxpayer ID number:

Form:

Tax periods ended:

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

Release Number: 202303013  
Release Date: 1/20/2023  
UIL CODE: 501.07-00

**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: Organizations described under IRC Section 501(c)(7) are organized and operated for the pleasure and recreation of their members or other non-profitable purposes and no part of the net earnings inure to the benefit of any private shareholder. You have not established that you are organized and operated exclusively for an exempt purpose within the meaning of IRC Section 501(c)(7). You have no members and your gross receipts from investments have consistently exceeded the 35% threshold as outlined in Public Law 94-568. As a result, you are not operating 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 [www.irs.gov](http://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](http://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.

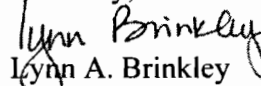
Find tax forms or publications by visiting [www.irs.gov/forms](http://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676).

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:**  
November 1, 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:**  
December 1, 2021

**CERTIFIED MAIL – Return Receipt Requested**

Dear :

**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)(7) 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](http://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](http://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,

Sean E. O'Reilly  
Director, Exempt Organizations Examinations

Enclosures:  
Form 886-A  
Form 6018

Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended

**ISSUE:**

Whether an organization that receives more than % of its income from investments, has no members and collects no membership dues qualifies for exemption under Section 501(a) as described in Section 501(c)(7) of the Internal Revenue Code (IRC).

**FACTS:**

was formed in and set up in the state of . Pursuant to the Document, the purpose of the Organization shall be to operate for the exclusive benefit of which is a not-for-profit corporation organized and existing under the . The income from this shall be paid to in the manner and to the extent where income shall be devoted exclusively to providing financial support for ( ) the education and training of members in the skills of competitive and ( ) capital expenditures and improvements for those purposes. Any income generated by the in excess of the amounts distributed to the in accordance with the provisions listed above shall be reinvested and added to principal. The Board of Directors of determines which of the requested programs will be presented to the and the then determine which programs are able to be funded based on the income received that year.

Examination of the Organization's Form , filed for the year ended revealed that the Organization's main source of income is from investments. The return also revealed that the organization does not have any membership dues, fees or assessment income. Based on the interview with the taxpayer, it was revealed that the organization does not have any members. The only other form of income received by the organization is a minimal amount of donations made by members of the related . The primary exempt activity of is to fund the of . While subsequent years were not audited, income from the Forms were analyzed and showed that the gross receipts received in prior and subsequent years was predominantly that from investments.

Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended

**LAW:**

IRC § 501(c)(7) exempts from federal income tax clubs organized for pleasure, recreation, and other non-profitable 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 Regulations (Treas. Reg.) § 1.501(c)(7)-1(a) states that the exemption provided by § 501(a) of the Code for an organization described in § 501(c)(7) of the Code 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.

Prior to its amendment in 1976, IRC § 501(c)(7) required that social clubs be operated exclusively for pleasure, recreation and other non-profitable purposes. P.L. 94-568, 1976-2 C.B. 596, changed the language of § 501(c)(7) from “operated exclusively for” to “substantially all” allowing a § 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 state:

(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. These percentages superseded those provided in Rev. Proc. 71-17.

(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.

(c) In addition, the Committee Reports state 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.

(d) The Senate report also indicates that, even though gross receipts from the general public exceed this standard, it does not necessarily establish that there is a nonexempt 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.

Rev. Rul. 66-149, 1966-1 C.B. 146, held that a social club is not exempt under § 501(c)(7) of the Code if it regularly derives a substantial part of its income from non-member sources, such as dividends and interest on investments which it owns.

Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
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**TAXPAYER'S POSITION:**

The Agent discussed with the Organization the possibility of revocation due to the excessive amount of investment income. In response the Taxpayer stated that there was no difference to them since they were paying taxes on the investment income on an annual basis regardless of exempt status on the Form

**GOVERNMENT'S POSITION:**

An organization exempt from federal income taxes as described in IRC § 501(c)(7) must meet the gross receipts test in order to maintain its exemption. In order to meet the gross receipts test, an organization can receive up to - percent ( %) of its gross receipts, including investment income, from sources outside its membership without losing its tax-exempt status. Within this % amount, not more than percent ( %) of the gross receipts should be derived from the use of a social club's facilities or services by non-members (the % and % tests are collectively referred to here as the "Gross Receipts Test").

In addition to the fact that the Organization has consistently exceeded the Gross Receipts Test, the following facts and circumstances support the determination that the is no longer operated exclusively for pleasure, recreation, and other nonprofitable purposes:

- The percentage of investment income receipts is over % of total receipts;
- The use of the Organization does not have any members and as such does not receive any membership income;
- The money that is donated by the Organization is donated to a specific organization that is not open to the public.

Based on the large percentages of gross investment income to total gross receipts of the Organization, which exceeds both the % and % limitations for the year examined and the prior and subsequent years, it is the Government's position that the is no longer organized for pleasure, recreation, and other nonprofitable purposes, substantially all the activities of which are for such purposes and is therefore not exempt under section 501(c)(7).

Form <b>886-A</b>	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
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**CONCLUSION:**

The IRC § 501(c)(7) tax-exempt status of \_\_\_\_\_ is being revoked since the investment income received by the \_\_\_\_\_ exceeded \_\_\_\_\_ % of the \_\_\_\_\_ total gross receipts for the year under examination. Further, it is a 501(c)(7) \_\_\_\_\_ which does not have any members and does not conduct activities that further the guidelines of said subsection of the Internal Revenue Code.

Based on the examination of the tax year ending \_\_\_\_\_, the \_\_\_\_\_ no longer meets the requirements to qualify as exempt from federal income tax under IRC § 501(a) as described in § 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 \_\_\_\_\_, *U.S. Income Tax Return for Estates and* \_\_\_\_\_ for the periods open under statute. These returns should be filed with the appropriate Service Center beginning with the tax year ending \_\_\_\_\_, and for all years thereafter in accordance with the instructions for the return.