

Internal Revenue Service

Department of the Treasury

District
Director

1100 Commerce St., Dallas, Texas 75242

Date: MAR 2 - 1998

Employer ID Number:

Person to Contact:

Telephone Number:

Refer Reply To:

[REDACTED]
[REDACTED]
[REDACTED]

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under Section 501(c)(7) of the Internal Revenue Code. The information submitted discloses that you were formed on [REDACTED] as an Association. Your purpose as stated in your By-Laws is to own, operate and maintain an association exclusively for the pleasure, entertainment and recreation of your members.

According to the information you submitted, your activities consist of providing snacks and beverages for your members. The members will be served by employees of a for profit restaurant ([REDACTED]) which is owned by an officer of the organization, [REDACTED].

The organization has entered into several agreements with the restaurant and [REDACTED]. The catering agreement will provide meals for the association's members and their guests at reasonable prices. The association also will pay the restaurant any charges not directly paid by the members. Members are restricted to purchasing food only from the restaurant. The lease agreement that the organization entered into states that they will pay [REDACTED] % of their gross revenue to [REDACTED]. The management agreement indicates it will pay [REDACTED] \$ [REDACTED] per month with bonuses to manage the day to day operations of the association to comply with the [REDACTED].

In response to our developmental letter you stated that the general public does have access to the portion of the restaurant leased to the organization. You stated the reason for this is because the county is dry and it requires and organization to be a private club in order to serve alcoholic beverages.

You also indicated the bar improvements are owned by the association. The association can only use the facility while the restaurant is open.

The organization was asked to provide a third party appraisal of the rental value of the property. You have indicated that there is no comparable properties in the area.

Membership is open to any person who is 21 years of age or older. Membership dues are \$ [redacted] annually for an individual and a spouse. Temporary memberships are controlled by the [redacted] and are good for [redacted] hours for a fee of \$ [redacted]. All funds from this source are paid directly to the state. The membership committee meets twice a week as required by the [redacted].

Section 501(c)(7) of the Internal Revenue Code provides exemption 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 regulation provides, 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 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."

"(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 for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a).

Revenue Ruling 58-589, 1958-2 C.B. 266 lists criteria or tests for determining whether an organization qualifies for exemption from Federal income tax as an organization described in section 501(c)(7) of the Code. In order to establish that the club is operated exclusively for pleasure, recreation and other nonprofitable purposes there must be an established membership, personal contacts and fellowship. A commingling of the members must play a material part in the life of the organization. In addition the organization must establish that no part of its net earnings inures to the benefit of any private shareholder or individual.

Revenue Ruling 66-225, 1966-2 C.B. 227, states that if an organization is controlled by a taxable corporation and operated as an integral part of such corporation's business, it does not qualify for exemption under Section 501(c)(7). The organization has members in three classes; annual, 90-day, and weekly for persons residing at an adjacent motel. The motel retains the exclusive right to serve food and other beverages to the club's members.

You are selling a product and your facilities are available to the general public and you are therefore not operated exclusively for pleasure, recreation, and other nonprofitable purposes according to Section 1.501(c)(7)-1(b) of the regulations.

[REDACTED]

Your organization is just like the organization in Revenue Ruling 66-225 which was not exempt under section 501(c)(7) of the Code. The owner of the [REDACTED], a for profit restaurant, organized the club in order to receive a license to serve alcoholic beverages in a county that is dry. All club members are restricted to purchasing food from the restaurant. All employees are paid by the restaurant and the association will reimburse the restaurant for the bartender. Your membership requirements are broad and you offer temporary membership which are good for [REDACTED] hours. Therefore, the club is not organized and operated exclusively for pleasure, recreation and other non profitable purposes just like the organization in revenue Ruling 66-225.

You have not shown that you are operated exclusively for pleasure and recreation as required by the above cited Code and Regulations and as outlined in Revenue Ruling 58-589. Your only meetings are the [REDACTED] required twice weekly membership committee meetings. There is no commingling of members, no personal contacts and fellowship, and no common objective which is for pleasure and recreation and other nonprofit purposes. In addition you do not meet the second criteria of this Ruling that no part of the net earnings inures to the benefit of any private shareholder or individual. The restaurant organized the club to operate as an integral part of their restaurant business.

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in Section 501(c)(7) of the Code. Accordingly, you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,



Acting District Director

Enclosures:
Publication 892
Form 6018

Department of the Treasury Internal Revenue Service
Consent to Proposed Adverse Action
(All references are to the Internal Revenue Code)

Prepare in
Duplicate

Case Number [REDACTED]	Date of Latest Determination Letter
Employer Identification Number [REDACTED]	Date of Proposed Adverse Action Letter
Name and Address of Organization [REDACTED]	

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

NATURE OF ADVERSE ACTION

- Denial of exemption
- Revocation of exemption, effective
- Modification of exempt status from section 501(c)() to 501(c)(), effective
- Classification as a private foundation (section 509(a)), effective
- Classification as a non-operating foundation (section 4942(j)(3)), effective
- Classification as an organization described in section 509(a)(), effective
- Classification as an organization described in section 170(b)(1)(A)(), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

Name of Organization [REDACTED]	
Signature and Title	Date
Signature and Title	Date