

Internal Revenue Service

Department of the Treasury

District
Director

[REDACTED]

[REDACTED]

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: APR 28 1989

Dear Sir or Madam:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code.

The information submitted discloses that your organization was incorporated under the nonprofit corporation laws of the State of [REDACTED] on [REDACTED].

The purpose for which your organization was formed, as stated in your Articles of Incorporation, is "to encourage and foster in the community of [REDACTED], healthful recreation, social and sports activities among its members and the members of the [REDACTED] community, including, but not limited to, gold, tennis, hand ball (sic), skeet and trap shooting, picnics, club dances, and other social functions." Your application shows that you own and operate a golf course.

Facts:

The organization owns and operates a golf course. Any person in the community can become a member by paying annual dues and buying a personal ticket. The golf course is open to the public. Members pay only dues; they do not pay green fees. Nonmembers pay green fees. Nonmembers are allowed to purchase raffle tickets. Total revenue for [REDACTED] was \$[REDACTED], of which [REDACTED] percent was from green fees from the general public. The entire [REDACTED] percent was for the use of the organization's facilities. The income is used to defray the expense of maintaining the golf course.

Issue:

Does the organization qualify for exemption as an organization described in section 501(c)(7) of the Internal Revenue Code?

Law:

Section 1.501(c)(7)-1 of the Income Tax Regulations, relating to the exemption of social clubs under section 501(a) of the Internal Revenue Code, reads 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). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption.

Revenue Ruling 69-219, 1969-1 C.B. 153, holds that a social club that regularly holds its golf course open to the public for use upon payments of established green fees and uses this income for maintenance and improvements of its facilities does not qualify for exemption.

Revenue Procedure 71-17, 1971-1 C.B. 683, Section 2-02, states, in part, that where a club makes its facilities available to the general public to a substantial degree, the club is not operated exclusively for pleasure, recreation or other nonprofitable purposes.

Analysis:

The Regulations, Revenue Ruling 69-219 and Revenue Procedure 71-17 describe your organization. Application of the principles in the Income Tax Regulations and the cited revenue ruling and revenue procedure leads us to the conclusion that your organization does not qualify for exemption under section 501(c)(7) of the Internal Revenue Code.

Conclusion:

Based on the information submitted, we have concluded that your organization is not entitled to exemption from Federal income tax as an organization described in section 501(c)(7) of the Code, because (1) it is engaged in business with the general public by regularly holding its golf course open to the public for use upon payments of established green fees, and (2) the income from this source is inuring to the benefit of the members because it is

[REDACTED]

is used for maintenance improvement and management of the facilities.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed agreement, Form 6018. Please note the instructions for signing on the reverse side of this form.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our Office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law and any other information to support your position, as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a hearing. The hearing may be held at the Office of Regional Director of Appeals or, if you request, at a mutually convenient district office. An addressed envelope is enclosed.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as failure to exhaust available administrative remedies and will then become our final determination.

Sincerely yours,

[REDACTED]

District Director

Enclosures:

Publication 892

Form 6018

Addressed Envelope