

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

MAR 12 1984

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The submitted information indicates your organization was formed in [REDACTED], [REDACTED]. No Certificate of Incorporation was provided. Your By-Laws were adopted [REDACTED], however there is no statement signed by an officer verifying that the copy is a true and correct copy of the bylaws under which you are currently operating.

Your stated purposes are to own, operate and maintain a social club exclusively for the members' pleasure and recreation. Membership requirements include payment of an annual fee, currently \$[REDACTED], and approval by the membership committee. Club by-laws allow the purchase of a temporary membership for \$[REDACTED] per year. The assets of the club consist of a bank account and liquor stock.

Club activities include leasing a restaurant facility and operating a liquor pool for members. By-laws require strict bookkeeping of the liquor stock in order to comply with [REDACTED] Alcoholic Beverage Laws. There is no indication of any other club event, club socializing, or program.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Club organized for pleasure, recreation and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to benefit of any private shareholder."

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
		[REDACTED]					
Surname							
Date		03/25/84					

Section 1.501(c)(7)-11(b) of the Income Tax Regulations states that:

"... Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business..."

Revenue Ruling 69-635, C.B. 1969-2, 126, holds that a commingling of members must play a material part in the activities of the organization before a section 501(c)(7) exemption can be granted.

Revenue Ruling 58-588, 1958-2 C.B. 265 denied exemption to an organization whose predominant activity was the selling of services to an unlimited number of so-called "associate" members whose only rights were the use of club facilities after paying a specified fee. It was determined that income from the associate members was merely a guise for transactions with the general public.

Likewise, Revenue Ruling 60-324, 1960-2 C.B. 173 states that a club loses exemption under 501(c)(7) if the club makes its facilities available to the general public on a regular, recurring basis.

Revenue Ruling 58-599, 1958-2 C.B. 266 sets forth the criteria for exemption under 501(c)(7). A club must be organized and operated for pleasure and recreation, and no net earnings may inure to any individual. The ruling points out that solicitation by advertising for public patronage of facilities is prima facie evidence that a club engages in a business and does not operate for the pleasure or recreation of the members. Use of profits from the public to support activities for members constitutes prohibited inurement and exemption is precluded.

is characterized by vague membership requirements. The lack of club activities indicates an incidental and passive association of individuals. Low annual dues, generalized membership requirements and unlimited numbers of temporary memberships constitute a subterfuge for doing business with the public. The "yes" answer asking if there is advertising for public patronage strengthens the distinction of operating a business with the general public. Furthermore, the lack of social activities, the emphasis on temporary memberships and the solicitation of public patronage is evidence that the club is created and operated as a

Organizing and operating a club in a manner which constitutes a subterfuge for doing business with the public disqualifies a club from exemption under Code section 501(c)(7). Therefore, you should file Federal income tax returns 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.

Sincerely yours,

  
District Director

Enclosures:  
Publication 892  
Form 6018