Internal Revenue Service
District Director

Department of the Treasury

Post Office Box 1680, GPO
Brooklyn, NY 11202

Date: NOV 20 1992

[redacted]

Person to Contact:
[redacted]

Contact Telephone Number:
[redacted]

Refer Reply to:
[redacted]

CERTIFIED MAIL

Dear Applicant:

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

The evidence presented disclosed that you were incorporated on [redacted] under The Not-For-Profit Corporation Law in the State [redacted].

The purposes for which the corporation was formed are as follows:
"Constructing, owning, operating, maintaining, controlling, leasing, buying, selling or other wise acquiring and conducting golf courses or golf clubs together with all types of related facilities, such as locker rooms and garages connected therewith; and conducting, operating and controlling games, athletic events, exhibitions, clinics, tournaments or any services or activities connected with the sport of golf; and providing education, information and training on the sport of golf; and leasing, operating,maintaining and controlling a municipal golf course."

"In conjuction with the foregoing purposes, owning, operating, managing and carrying on restaurants, bars, snack bars and other eating and drinking facilities; and preparing, selling, serving and dispensing food and beverages, alcoholic and nonalcoholic."

The information submitted with your Application 1024 indicates that your activities include operating a public eighteen hole golf course together with all the normal activities connected therewith, utilizing a PGA professional to manage the golf club, give lessons, run programs, tournaments and related activities. The information submitted also states that your golf club will provide amenities to members and the general public such as food, beverages, lockers, etc. To provide education and golf programs at many levels of competence and age groups. The organization's sources of receipts are from membership dues, green fees, and membership contributions.

Section 501(c)(7) of the Code provides exemption to 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. 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.

Public Law 94-568 amended IRC 501 to reflect a twofold change under IRC 501(c)(7). First, it makes it clear that a social club may receive some investment income without losing its exempt status. Second, it permits a higher level of income from nonmember use of club facilities than was previously allowed.

In addition, Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public Law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. Thus a social club may receive investment income up to the full 35 percent amount of gross receipts. If a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

Revenue Ruling 68-149, 1968-1 C.B. 146 holds that a social club is not exempt from Federal income tax as an organization described in section 501(c)(7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments which it owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for the club.

In Revenue Ruling 69-219, 1969-1 C.B. 153, exemption was denied to a social club that regularly holds its golf course open to the general public, charging established green fees that are used for maintenance and improvement of club facilities.

Like the organization described in revenue Ruling 69-219, this organization regularly holds its golf course open to the general public. Therefore, we have determined that you are not operating exclusively for pleasure and recreation within the meaning of section 501(c)(7).

Public Law 94-568 states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. This organization regularly holds its golf course open to the general public. Therefore, we have determined that you are not operating exclusively for pleasure and recreation within the meaning of section 501(c)(7).

Accordingly, we conclude that you do not meet the requirements for exempt status under section 50 (c)(7) of the Code and propose to deny your request for exemption under that section.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completion.

If we do not hear from you within that time, this determination will become final.

Sincerely yours,

District Director

Enclosure: Publication 892