

INTERNAL REVENUE SERVICE
Room 710
P. O. Box 1033
Atlanta, Georgia 30370

Department of the Treasury

Date:

DEC 1 1982

Person in Contact:

Contact Telephone Number:

Ref: Reply to:

Employer Identification Number:

File Folder Number:

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 evidence submitted disclosed that you were incorporated [redacted] to further the advancement of all breeds of pure-bred dogs; to do all in its power to protect and advance the interests of pure-bred dogs and to encourage sportsmanlike competition at dog shows and obedience trials under the rules of the American Kennel Club. Your activities consist of regular meetings of the members, dog shows, matches and handling classes. Your primary source of receipts are derived from entrance fees charged at the dog shows. You have estimated that approximately [redacted] of the receipts are derived from persons other than members of your club. The receipts reflect net profits from the dog shows in the amounts of [redacted] and [redacted] for the years ending [redacted] and [redacted] respectively. Approximately [redacted] to 60% of the income received from matches and clinics is from other than members of the organization. For the years ending [redacted] and [redacted], respectively, of the total receipts were derived from non members and/or investment income.

Section 501(c) of the Internal Revenue Code of 1934 describes certain organizations exempt from Federal income tax under section 501(c) and reads, in part, as follows:

"(7) Clubs 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 the benefit of any private shareholder."

Section 1.501(c)(7)-1 of the Income Tax Regulations provides, in part, as follows:

"(a) the exemption provided by section 501(c) 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 recreational 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."

The committee reports for Public Law 94-348 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) state that it is intended that social clubs should be permitted to receive up to 33 percent of their gross receipts, including investment income from sources outside of their membership without jeopardizing their exempt status under section 501(c)(7) of the Code. It is also intended that not more than 133 of the gross receipts should be derived from the use of a club facilities or services by the general public.

A non profit organization that, in conducting sports car events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising, does qualify for exemption under section 501(c)(7) of the Code as provided by Revenue Ruling 83-63, 1983-1, C.B. 240.

Inasmuch as you receive substantial (BIZ) support from other than your membership you do not qualify for exemption under section 501(c)(7) of the Code.

Further, the monies received from non-members result in substantial profits to the club. These profits in fact subsidized the club losses in [REDACTED]. Therefore, not only does the club exceed the recommended percentages of non member support, it also fails to meet facts and circumstances necessary to warrant classification under section 501(c)(7) or any related subsection of IRC 501(c).

An organization which has not established its exempt status is required to file Federal income tax returns.

[REDACTED]

If you do not agree with our proposed denial, we recommend that you request a conference with a member of the Regional Director of Appeals Staff. Your request for a conference should include a written appeal signed by an authorized officer giving the facts, law and any other pertinent information to support your position as explained in the enclosed Publication 492. If you are to be represented by someone who is not one of your authorized officers, he/she will need to file a power of attorney or tax information authorization and be qualified to practice before the Internal Revenue Service as provided in Treasury Department Circular No. 230. The conference may be held at the Regional Office or, if you request, at any mutually convenient District office.

If we do not hear from you within 30 days, this letter will become our final determination.

If you have any questions please contact the person whose name and number are shown above.

Sincerely,

District Director