



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
PO Box 2508
Cincinnati, OH 45201

Date:
01/30/2025
Employer ID number:

Form you must file:
1120

Tax years:
All

Person to contact:

Release Number: 202517018
Release Date: 4/25/2025
UIL Code: 501.07-00

Dear :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(7). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437
Redacted Letter 4034
Redacted Letter 4038



Department of the Treasury
Internal Revenue Service
PO Box 2508
Cincinnati, OH 45201

Date: 12/12/2024

Employer ID number:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Legend:

B = Organization

C = Date of formation

D = State

F = Type

G = Type

x percent = Number

UIL:

501.07-00

Dear :

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(7). This letter explains the reasons for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under IRC Section 501(c)(7)? No, for the reasons stated below.

Facts

You were incorporated in D on C. Your corporate purposes include:

- Attempting to bring the natural qualities of pure bred of the F to perfection.
- Urging members and breeders to accept the standard of the F as approved by B as the only standard of excellence for which they will be judged.
- Conducting sanctioned and specialty shows under the rules of B.
- Protecting and advancing the interests of the breeds.
- Encouraging sportsman like conduct at dog shows.

You are a B licensed dog club. Regular (individual), household, honorary, and lifetime memberships are open to any adult who is in good standing with B and subscribes to your purposes. You conduct monthly membership meetings where you plan and discuss club activities. You explained that each year in early spring you will sponsor a B sanctioned dog show for the F in which both members and nonmembers may participate. The show will be conducted in affiliation with another B licensed club which is a G club. During the show, your members will provide educational programs and demonstrations to the general public about caring for dogs and

promoting the dog breed qualities. Usually, a raffle is held during the dog show to help raise money for activities and charitable programs.

You also explained that once a year, you may sponsor a non-sanctioned F dog show at a local venue. This is an unofficial dog show where the public is invited to attend and participate by showing dogs. B points are not awarded but this is a good practice match for those wanting to learn about showing dogs. Members may help mentor those showing for the first time.

Further, you conduct community outreach programs at a local pet store or mall where you teach the general public about good citizenship for dogs and owners. You also make charitable donations once or twice a year to the local police K-9 unit or canine rescues.

You receive your funds from raffles at the dog shows, entry fees from the dog shows, and membership fees. We asked you to provide your gross receipts received from nonmembers. You explained that in the range of x percent of your gross receipts is from nonmember sources.

Law

IRC Section 501(c)(7) exempts from federal income tax, 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.

Treasury Regulation Section 1.501(c)(7)-1(a) states that the exemption provided by IRC Section 501(a) for an organization 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 inure 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.

Treas. Reg. Section 1.501(c)(7)-1(b) states that 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 IRC 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.

Rev. Rul. 58-589, 1958-2 C.B. 266, sets forth the criteria for exemption under IRC section 501(c)(7), and provides that a club may lose its exemption if it makes its facilities available to the general public. A club will not be denied exemption merely because it receives income from the general public provided such participation is incidental to and in furtherance of its general club purposes. To retain exemption a club must not enter into outside activities with the purpose of deriving profit. If such income producing activities are other than incidental, trivial or nonrecurrent, it will be considered that they are designed to produce income and will defeat exemption.

Rev. Rul. 69-220 1, 1969-1 C.B. 154, held a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses and to improve and expand its

facilities is not exempt under IRC Section 501(c)(7). This club is not exempt from federal income tax under Section 501(c)(7) because it is regularly engaged in a business ordinarily carried on for profit and because net income from the activity is inuring to the members of the club.

The Committee Reports for Public Law 94-568, HR 1144, provides under IRC Section 501(c)(7) that social clubs be operated substantially for pleasure, recreation, and other non-profit purposes. An organization may receive up to 35% of its gross receipts from a combination of investment income and non-member receipts, as long as non-member receipts do not represent more than 15% of total receipts.

Application of law

Treasury Regulation Section 1.501(c)(7)-1(a) states that the exemption provided by IRC Section 501(a) for an organization described in Section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes. Exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. Based on your sources of income you do not qualify as an exempt social club because you are supported substantially through non-member income sources primarily from dog shows and raffles.

Per Treas. Reg. Section 1.501(c)(7)-1(b), when a club engages in business it is not organized and operated exclusively for pleasure, recreation, and other nonprofit purposes. As described in Rev. Rul. 58-589, although a club may receive some income from the general public, your dog show and raffle activities are more than incidental and, therefore, preclude exemption under IRC Section 501(c)(7).

Rev. Rul. 69-220 held a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses is not exempt under IRC Section 501(c)(7). Your activities of conducting dog shows and raffles are conducted with the purpose to generate income, decreasing the amounts needed to be contributed by your members. This income is in part supporting your activities, which decreases the financial obligations of your members, and therefore this income is inuring to their benefit.

A substantial portion of your income is generated from business done with the general public. By receiving in the range of x percent of your revenue from non-members, you fail the membership income tests set forth by the Committee Reports on Public Law 94-568. You do not meet the facts and circumstances exception for this income test as your dog show and raffle activities are regular and substantial.

Conclusion

Based on the information you have provided you do not qualify for exemption under IRC Section 501(c)(7). You receive a majority of your income from non-member sources which is substantially more than the 35% allowed for Section 501(c)(7); therefore, you do not qualify to tax exemption under said section.

If you agree

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

If you don't agree

You have a right to protest if you don't agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

For an officer, director, trustee, or other official who is authorized to sign for the organization:
Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, Power of Attorney and Declaration of Representative, with us if they haven't already done so. You can find more information about representation in Publication 947, Practice Before the IRS and Power of Attorney.

We'll review your protest statement and decide if you gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

Where to send your protest

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Mail Stop 6403
PO Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Mail Stop 6403
Cincinnati, OH 45202

You can also fax your protest and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that they received it.

You can get the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676). If you have questions, you can contact the person listed at the top of this letter.

Contacting the Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or if you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 877-777-4778.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements