



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

Date:
05/02/2025
Employer ID number:

Form you must file:
1120
Tax years:
All
Person to contact:

Release Number: 202530015
Release Date: 7/25/2025
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:
02/06/2025

Employer ID number:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Legend:

B = Date

C = State

h percent = Revenue

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 incorporated on B, in the state of C. Your only governing document is your Articles of Incorporation, which states you were formed for the purpose of engaging in any lawful activity for which corporations may be formed under C statutes for non-profit corporations.

Your sole activity is to operate a travel baseball team for players aged 12 or younger. Your players practice and play in tournaments throughout the state of C during two months in the fall and four months in the spring and summer. You do not have a facility, but practice at a local high school softball field that has been donated by the school district. Your players are invited to try out for the team that are advertised primarily through word of mouth and other means. You do not have a membership application. You indicate that memberships are generally limited to the small number of players on your team and each member has one vote allocated for team decisions.

You state that h percent of your revenue is received from local businesses and other sponsorships. All funds are used for tournament entry fees for the tournaments you enter, umpires, and other baseball related expenses.

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 Section 501(a) of the Code 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, 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.

Revenue Ruling 58-588, 1958-2 C.B. 265, states that an organization formed by several individuals to operate a health, recreational, and social club but whose predominant activity is the selling of services for profit to an unlimited number of so-called 'members,' who have no voice in the management of the club and whose only rights are to use the club's facilities upon the payment of specified fees, is not a tax exempt social club within the meaning of IRC Section 501(c)(7). In distinguishing members from non-members, the ruling notes that certain members may not be true members but are instead merely a guise under which virtually unlimited number of individuals may utilize the club's facilities. As a result, the organization's income amounted to merely transactions with the general public.

Public Law 94-568, 1976-2 C.B. 596, changed the language of IRC Section 501(c)(7) from "operated exclusively for" to "substantially all" allowing IRC Section 501(c)(7) organizations to receive some outside income without losing their exempt status. Explaining the new law, Senate Report 94-1318 noted that it is intended that these organizations be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their tax-exempt status. It is also intended that within this 35 percent amount not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public.

Application of law

You do not meet the requirements of IRC Section 501(c)(7). While your activities do provide for the pleasure and recreation for the youth baseball players in your community, since your only sources of income are sponsorships and donations from the general public, and not from your membership as required, you do not meet the requirements of exemption for this section as further stated below.

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. 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 you are supported substantially through non-member income sources from donations from the general public.

You are like the organization described in Rev. Rul. 58-588. You do not have bona fide members. While you do consider the small number of youths participating in your team as members, you also consider all persons from the general public as members, simply because they donate to you. Your donors have no voice in your management; therefore they are not true members.

Your income is generated solely from donations and sponsorships from the general public. By receiving h percent of your revenue from non-members, you fail the membership income tests set forth by the Committee Reports on Public Law 94-568.

Conclusion

Based on the information you have provided you do not qualify for exemption under IRC Section 501(c)(7). You exceed the allowable levels of non-member income. Therefore, exemption is not granted to you under Section 501(c)(7).

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