



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities

Date:
07/10/2025
Employer ID number:

Form you must file:

Person to contact:

Release Number: 202540020
Release Date: 10/3/2025
UIL Code: 501.07-00, 501.07-05

Dear [REDACTED]:

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
Letter 4038



**Department of the Treasury
Internal Revenue Service**

Date:
05/09/2025
Employer ID number:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Legend:

B = Date

C = State

w percent = percentage

x percent = percentage

y percent = percentage

UIL:

501.07-00

501.07-05

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 formed on B in the State of C as a nonprofit corporation. You operate as a nonprofit, nonpolitical membership organization comprised of adult men of _____ descent, of any degree, or spouse of such persons, who are in accord with the ideals of your association, irrespective of religious faith or political affiliation, who believe in the concept that society is based upon the principles of law and order, and who adhere to a form of government founded in the belief in God and upon the Constitution of the United States of America.

You will conduct various civic and community activities throughout the year, including a yearly golf outing fundraiser. Participants for your golf outing include your members and the general public. You solicit for donations during your golf outing from your members and the public. Your golf outing also includes additional fundraising activities, such as hole sponsors, sponsorships, and live and silent auctions. Expenses for the golf outing include such items as venue rental, food, and prizes.

Your financial information showed your gross revenues consisted of gifts, grants, and contributions received, membership fees, gross investment income, and other revenues, such as proceeds from your golf outing fundraiser. On average, your golf outing proceeds exceeded more than w percent of your gross revenues, and your gifts, grants, and contributions received comprised more than x percent of your gross revenues. Your membership fees and investment income were reported as approximately y percent. Your expenses included gifts paid out, donations, and expenses related to your other activities.

Law

IRC Section 501(c)(7) provides for exemption for clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all the activities of which are for such purposes, and no part of the net earnings of which inure to the benefit of any private shareholder.

Treasury Regulation Section 1.501(c)(7)-1(a) states that exemption provided under IRC Section 501(c)(7) applies only to clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of the earnings inure to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs supported solely by membership fees, dues, or assessments.

Rev. Rul. 66-149, 1966-1 C.B. 146, provides that a social club is not exempt from federal income tax as an organization described in IRC Section 501(c)(7) if it regularly derives a substantial part of its income from non-member sources. To the extent that income is derived from nonmember sources, it inures to the benefit of the members. If such activities are other than incidental, trivial, or nonrecurrent, it is considered that they are intended to produce income and reflective of a purpose inconsistent with exemption under Section 501(c)(7).

Rev. Rul. 74-148, 1974-1 C.B. 138, states that an organization formed to provide bowling tournaments and recreational bowling competitions among its members qualifies for exemption under IRC Section 501(c)(7), where its overall program is designed to affect a commingling of members for their pleasure and recreation. Membership is by invitation only and all applicants are approved by the board of directors. This organization satisfies the requirement because of their social and recreational activities and established prerequisite conditions for its members to be recognized as a social club.

Public Law 94-568 provides that IRC Section 501(c)(7) organizations may receive some outside income without losing their exempt status. Senate Report No. 94-1318 (1976), 2d Session, 1976-2 C.B. 597, states that a social club is permitted to receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. It is also stated 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 public. The Senate Report also states that it is not intended that these organizations should be permitted to receive, within the 15 percent or 35 percent allowances, income from the active conduct of businesses not traditionally carried on by these organizations.

Application of law

IRC Section 501(c)(7) and Treas. Reg. Section 1.501(c)(7)-1(a) provide for exemption of clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all the activities of which are for such purposes. There must be an established membership of individuals whose common objective is directed towards pleasure and recreation. The commingling of members actively working towards that objective must also play a substantial part in the existence of the club, in addition to the organization's gross receipts meeting the percentage requirements in Public Law 94-568. You fail to meet these requirements as described below.

Even though your members share a common objective and commingle to accomplish those objectives, you conduct regular and recurring events with the public that generate gross revenues exceeding the percentage requirements for social clubs under IRC Section 501(c)(7).

As outlined in Public Law 94-568, social clubs may receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership. Notwithstanding your gifts, grants, and contributions, your golf fundraiser is an annual event that generates an impermissible portion of your gross revenues, even after deducting for related expenses. Although the proceeds will be donated, you choose the organization or individuals who will receive those funds; thus, the proceeds do, inadvertently, benefit your members by providing the funds for your charitable giving, and, again, more than 35% of your gross revenues derive from recurring nonmember sources. Therefore, based on the facts and circumstances of your application, you do not meet the requirements for exemption under IRC Section 501(c)(7).

You are unlike the organization described in Rev. Rul. 74-148, which qualified for exemption under IRC Section 501(c)(7). In this ruling, the organization's activities were limited to its members and designed to affect a commingling of members for their pleasure and recreation. Unlike this organization, your golf outing operates as an annual fundraiser with the public. It is not limited to your members or bona fide guests of your members, and proceeds from the fundraiser exceed percentage thresholds for nonmember income under Public Law 94-568. Therefore, you fail to meet the requirements for exemption under Section 501(c)(7).

Further, Rev. Rul. 66-149 supports this position, stating that a social club that derives a substantial part of its income from nonmember sources is not exempt as an organization described in IRC Section 501(c)(7). Your golf outing and related donations are not incidental, trivial, or nonrecurrent activities compared to your other activities or sources of revenues. Because you violate the 35% threshold, you are operating outside the scope of operating for the pleasure and recreation of your members, which disqualifies you from exemption under Section 501(c)(7).

Conclusion

Based on the information above, you do not qualify for exemption under IRC Section 501(c)(7). You are not organized and operated for exempt purposes within the meaning of Section 501(c)(7) because you conduct regular and recurring events with the public in which you receive an impermissible amount of gross revenue from nonmembers under Public Law 94-568. Therefore, you do not meet the requirements for exemption within the meaning of 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