



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
Internal Revenue Service  
30 East 7th Street  
Stop 4925  
St. Paul, MN 55101

AUG 17 2005

Number: 200631027

Date: 8/4/06

A  
B

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

UIL 501.07-05

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear ,

We have enclosed a copy of our report of examination explaining why we believe an adjustment of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process*, explains how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

Letter 3610 (04-2002)  
Catalog Number 34801V

You may also request that we refer this matter for technical advice as explained in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*. If a determination letter is issued to you based on technical advice, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action*. We will then send you a final letter modifying or revoking exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

1919 Smith Street, Stop 1005HOU  
Houston, TX 77002

Tel: .

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

R. C. Johnson,  
Director, EO Examinations

Enclosures:  
Publication 892  
Publication 3498  
Form 6018  
Report of Examination  
Envelope

Form 886-A	<b>EXPLANATION OF ITEMS</b>	Schedule No. or Exhibit
Name of Taxpayer A		Year/Period Ended

**ISSUE: REVOCATION OF EXEMPT STATUS**

**FACTS:**

The organization is a subordinate of **E**, which was granted exemption as a 501(c)(7) in

During the year ending \_\_\_\_\_ and until the November 21, \_\_\_\_\_ the organization participated in operating bingo games and the sale of "instant bingo" in order to raise funds. These games were open to the public. They were held in a public bingo hall used by many non-profit organizations. **A** has no records of member/nonmember income from this gambling activity.

The gross receipts from this activity are \$ \_\_\_\_\_ for the year ending \_\_\_\_\_,

**LAW:**

Internal Revenue Code section 501(c)(7) provides for the exemption from Federal income taxes for 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

Activities conducted by a social club need to further its exempt purposes. Traditional business activities are those that further a social club's exempt purposes. Activities that are not in furtherance of a social club's exempt purpose are referred to as nontraditional business activities.

A social club is prohibited from conducting more than an insubstantial amount of nontraditional business activities.

Income Tax Regulation section 1.501(c)(7)-1 states that if a Social Club makes its social and recreational facilities available to the general public it will not qualify for tax-exempt status. However, Revenue Procedure 71-17 as amended by Public Law 94-568 provides certain gross receipts safe harbors; i.e. Social Clubs may receive up to 35% of their total gross receipts, including investment income, from sources outside of their membership without jeopardizing their tax-exempt status. Within this 35% limit, no more than 15% of a club's gross receipts may be derived from nonmember use of the club's facilities and/or services or from other activities not furthering social or recreational purposes for members. If these standards are exceeded, a Social

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Club will not qualify for exemption pursuant to IRC section 501(c)(7).

**TAXPAYER'S POSITION:**

The taxpayer has indicated agreement by signing Form 6018-A and filing Forms 1120.

**GOVERNMENT'S POSITION:**

The gross receipts reported on their quarterly reports to the  
for the year ending June 30,

Since the activity was conducted at an off-site location, it is not an activity which furthers social or recreational purposes of members.

Cash sales may be assumed to be nonmember if they cannot be traced to members.

It is the responsibility of an organization which is exempt under 501(c)(7) to keep records of its member and nonmember activity. No information was furnished to show the amount of income that the organization received from traditional sources such as dues and member participation in events.

As the gambling activity is not on the organization's premises and there are no records of member income, there is no choice but to conclude that all \$, is nonmember income for the year ending and all gambling income is from nonmember sources in the following year.

The organization would have to have more than \$ from dues and traditional activities which further the social and recreational purposes of the members in order to avoid exceeding the 35% limit in the year ending

The organization has not given any indication that their dues and traditional social club income are as large as the gross receipts from gambling.

Without information on traditional sources of income and considering the large amount of gross receipts from gambling with nonmembers, it must be concluded that the organization exceeded the allowed amounts for nonmember income for the years ending

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Since **A** regularly derives more than 35% of its gross receipts from sources outside the membership, and since it carries on a nontraditional activity as more than an insubstantial part of its activities, it no longer qualifies as a social club.

**CONCLUSION:**

The taxpayer's exempt status should be revoked, effective

As a taxable entity, you are required to file Form 1120, U.S. Corporation Income Tax Return for the periods open under statute. Under 6501(g) these periods include the years ending .