

APPENDIX 5L

Treasury Regulation 1.501(c)(7)-1—Describes “Recreational” Organizations^a

Cross Reference Data

Topical

Exempt organizations
Form 990
Profit motive
Recreational organizations
Social clubs

Citation

IRC Section—501(c)(7)—2J
Regulations Section—1.337(d)-4—5G
Case—*Portland Golf Club v. U.S.*—4A
Revenue Ruling—81-69—6Z
Private Letter Rulings—200728048—7CB, 200817064—7CD

Summary

Treasury Regulation 1.501(c)(7)-1 interprets the exemption from taxation of the membership income of clubs organized for pleasure, recreation, and other nonprofitable purposes. The exemption does not apply to a club if part of its net earnings inure to the benefit of any private shareholder. Therefore, advertising the availability of its facilities for public use would disqualify a club from exemption under IRC Sec. 501(a).

Describes “Recreational” Organizations

Social clubs.

- (a) The exemption provided by section 501(a) 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^b, 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 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.
- (b) 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 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.

Notes:

- ^a This regulation has not been updated for the effect of public laws subsequently issued or repealed.
- ^b Rev. Rul. 75-494 (Appendix 6S) indicates that the maintenance of private roads will disqualify an association under this section.