



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

Number: **201434022**  
Release Date: 8/22/2014

Date: May 29, 2014

Uniform Issue List:  
501.00-00; 501.07-00

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

Dear :

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(7). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file. File the returns in accordance with their instructions, and do not send them to this office. Failure to file the returns timely may result in a penalty.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Tamera Ripperda  
Director, Exempt Organizations

Enclosure  
Notice 437  
Redacted Proposed Adverse Determination Letter  
Redacted Final Adverse Determination Letter



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

Date: April 14, 2014

Contact Person:

Identification Number:

Uniform Issue List:

501.00-00

501.07-00

Contact Number:

FAX Number:

Employer Identification Number:

**Legend**

<u>State</u>	=
<u>Date 1</u>	=
<u>University</u>	=
<u>Amount 1</u>	=
<u>Amount 2</u>	=
<u>Amount 3</u>	=
<u>Amount 4</u>	=
<u>Amount 5</u>	=
<u>Amount 6</u>	=

Dear :

We have considered your application for recognition of exemption from Federal income tax under Internal Revenue Code section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code section 501(c)(7). The basis for our conclusion is set forth below.

You are a nonprofit corporation incorporated under State law on Date 1. Your Articles of Incorporation ("Articles") do not contain a purpose clause. Upon dissolution, your articles provide that your assets will be distributed to section 501(c)(3) organizations. You have a board of directors who serve without compensation.

Your specific purpose is to operate a national online sorority for students of an online for-profit university, University. Your specific purpose is to encourage your members to succeed academically and professionally and ensuring that "

" On your website, you state that you go  
" and that you have "

" Your members communicate among each other virtually over the Internet by telephone, email, blog posts, and online classes. When you add new members, you perform a ceremony over the Internet. You have members in over Amount 1 states in the United States and international locations.

Originally you stated that Amount 2 of your activities would be community service events performed by members in their individual capacity and Amount 3 of your activities would be delivering scholarships to your members. However, in a subsequent submission you state that Amount 4 of your activities are virtual and Amount 5 of your activities are held in-person that includes the community service activity.

Your "virtual" activities performed over the Internet and telephone amounts to Amount 4 of your total activities. Your activities performed over telephone or the Internet include: (1) recruiting new members through your national Internet-based social networking group; (2) attracting new members Internet-based social networking discussion groups and conference calls; (3) emailing membership application forms; (4) processing of application online and via telephone; (5) providing new member training, which is "a strategic set of activities that are held in the comfort of the candidates' home and computer"; (6) initiating new members via national telephone call; (7) holding regional monthly and bi-monthly meetings (per the individual leaders' discretion) online or by telephone; and (8) providing classes and support groups by Internet-based telephone service, webinar, or conference call.

Your face-to-face interaction amounts to Amount 5 of your total activities. You state that this includes: (1) Members living near each other performing community service with nonprofit organizations. To this end, you tally the individual members' community service hours for those members who self-report to you; and (2) you conduct a three to five day face-to-face meeting every year, held at three locations within the United States. At the meetings, you provide your members with instruction on how to effectively run their chapters (including budgeting, planning, scholarship facilitation, community service, and philanthropy planning) and logistical training on running the chapters (including communication, bylaws and guidelines, recruitment, new member process, and leadership training).

You have a procedure for admitting members and provided a sample membership application. Your criteria for membership includes the following: (1) current enrollment at University, (2) a GPA of 2.5 or higher, (3) completed membership application, (4) letters of recommendation from University supervisor or faculty, (5) letter of recommendation from local member of you, (6) a letter of recommendation from a friend or co-worker, (7) one page explanation of why applicant wants to become a member, (8) and a short biographical description of applicant and a photograph. Your Bylaws provide for your alumnae members to have voting rights on the local level, although you do not define what voting rights that means or whether current student members have voting rights.

Your source of funding is membership dues and contributions. You expend money on operating expenses, such as maintaining your website and mailing fundraising solicitations. With any residual funds, you will provide up to three Amount 6 scholarships to members to attend university. You have a scholarship application, selection criteria, and a scholarship selection committee. Your members pay an additional registration fee to attend the annual conferences that does not come out of your budget.

#### **LAW:**

I.R.C. § 501(c)(7) provides for an exemption from U.S. federal income tax for clubs organized substantially for pleasure, recreation, and other nonprofitable purposes, no part of the net

earnings of which inures to the benefit of any private shareholder.

Treas. Reg. § 1.501(c)(7)-1 provides that this exemption generally extends to social and recreation clubs that are supported solely by membership fees, dues, and assessments. In addition, a club that engages in a business is not deemed organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes and, thus, is not deemed exempt under § 501(a).

Rev. Rul. 55-716, 1955-2 C.B. 263, holds that an organization formed for the purpose of furnishing television antenna service to its members is not entitled to exemption from federal income tax under § 501(c)(7). The term "club," as used within § 501(c)(7), contemplates the commingling of members, one with the other, in fellowship. Personal contacts and fellowship must play a material part in the life of an organization for it to come within the meaning of the term "club."

Rev. Rul. 58-589, 1958-2 C.B. 266, sets forth the criteria or tests for determining whether an organization qualifies for exemption from tax under § 501(c)(7). In making this determination, all facts pertaining to the organization's form, method of operation, and activities should be considered. The organization must establish that (1) it is a "club" organized and operated exclusively for pleasure, recreation, or other nonprofitable purposes and (2) no part of its net earnings inures to the benefit of any private shareholder or individual. To be deemed a "club," there must be an established membership of individuals, personal contacts, and fellowship. A commingling of the members must play a material part in the life of the organization.

Rev. Rul. 67-428, 1967-2 C.B. 204, provides that a federation of clubs is not exempt under § 501(c)(7). Commingling, a material aspect of an exempt social club, is recognized on the individual club level. Fellowship between members however does not play a material part in the activities of an organization composed of artificial entities.

Rev. Rul. 70-32, 1970-1 C.B. 132, holds that a flying club providing economical flying facilities for its members but having no organized social and recreation program does not qualify for exemption under § 501(c)(7). In this case, the sole activity of the club involved the ownership, operation, and maintenance of the aircraft for use by the members, and there was little commingling among members for social or recreational purposes. For the club to be exempt, the ruling explains that there must be an established membership of individuals, personal contacts, and fellowship. Also, commingling of members must play a material part in the organization's activities. This organization's sole activities consisted of rendering flying services to its members, and there was no significant commingling of its members.

Rev. Rul. 74-30, 1974-1 C.B. 137, holds exempt under § 501(c)(7) a flying club of limited membership that provided flying privileges solely for its members, assessed dues based on the club's fixed operating costs, and charged fees based on variable operating expenses. The organization's members were interested in flying for a hobby, constantly commingled in informal meetings, and had constant person-to-person association. This organization was found distinguishable from the flying club in Rev. Rul. 70-32, *supra*, because there the club was open to all persons interested in flying, members did not join to participate as a group in a hobby for recreation, and the members had no expectation of personal relationship with other members.

In United States v. Fort Worth Club of Fort Worth Texas, 345 F.2d 52 (5th Cir. 1965), on reh'g,

348 F.2d 891 (1965), the court ruled that a men's club was not exempt under § 501(c)(7), because the organization was in the business of leasing office space to the general public. In reaching its conclusion, the court stated that the legislative history of § 501(c)(7) "urges a particularly strict construction for exemption of social clubs."

## ANALYSIS:

Organizations seeking exemption under § 501(c)(7) need to satisfy the following statutory requirements: (1) be a club; (2) be organized for pleasure, recreation, and other nonprofitable purposes; (3) have substantially all of its activities devoted to such purposes; (4) have no part of its net earnings inure to the benefit of any private shareholder; and (5) have no written policy that discriminates against individuals seeking membership on the basis of race, color, or religion. See, § 501(c)(7) and Rev. Rul. 58-589, supra. For the reasons provided below, you do not satisfy the requirements for recognition under § 501(c)(7) as less than substantially all of your activities are devoted to pleasure, recreation, and other nonprofitable purposes and you do not meet the definition of a "club" within the meaning of § 501(c)(7).

Commingleing and the promotion of fellowship are not a material part of your operations. Commingleing is a necessary and material part in the life of an organization exempt under § 501(c)(7) and is deemed present if such things as meetings, gatherings, and regular facilities are evident. See, Rev. Rul. 70-32, supra, and Rev. Rul. 74-30, supra. Face-to-face interaction is important for members of a social club. Organizations that do not afford opportunities for this personal contact among members are not entitled to exemption under § 501(c)(7), even though they may be organized not for profit with no part of their earnings inuring to the benefit of shareholders. See, Rev. Rul. 55-716, supra. The definition of "club" within the meaning of § 501(c)(7) shall be strictly construed. See, United States v. Fort Worth Club of Fort Worth Texas, supra.

Similar to the nonexempt organization described in Rev. Rul. 70-32, supra, and unlike the exempt organization described in Rev. Rul. 74-30, supra, you operate primarily to advance the individual interests of your members. You do not engage in meetings and gatherings as a primary activity that involves personal contact among or between your members. Further, you do not have a regular facility where members gather to engage in fellowship. Similar to the organization described in Rev. Rul. 55-716, supra, you do not promote fellowship in a manner similar to an exempt club described in § 501(c)(7), as you do not afford opportunities for personal contacts in a manner more than incidental to your primary purpose of operating a social network over the Internet. Your members are spread out around the country and a majority of your activities are performed over the Internet. While you engage in some face-to-face interaction at your conferences held once a year, the majority of your activities are performed in an individual capacity and over the Internet rather than face-to-face. Additionally, the topics discussed at your face-to-face meeting and over the Internet pertain more to your organizational aspects rather than the promotion of any recreational or other nonprofitable purposes. Further, you do not expend money on social or recreational purposes. Accordingly, you are similar to the nonexempt organizations described in Rev. Rul. 58-589, supra, and Rev. Rul. 69-635, supra held not to meet the definition of "club" in § 501(c)(7), as you do not provide opportunities for your members to engage in fellowship and commingleing as a material part of your activities. You are not organized substantially for pleasure, recreation, or other



nonprofitable purposes as required by § 501(c)(7).

Finally, you do not qualify as a federation of clubs because you have not shown that you engage in fellowship at the local level. A club's membership consists of individual members who have the right to vote and determine the management, operation, and control of the club. A state-wide or nation-wide organization, composed of individuals broken up into local groups, satisfies this requirement if fellowship constitutes a material part of the life of each local group. See Rev. Rul. 67-428, *supra*. You applied as a national online sorority for students of the national online university, University, and have membership spread across the United States. You have not shown that commingling and fellowship are a material part of your organization at the local level in your various chapters. Accordingly, you do not qualify as a federation of clubs under Rev. Rul. 67-428. You lack true membership as required by § 501(c)(7).

## CONCLUSION:

Based on the facts provided above, we hold that you do not meet the requirements for tax exemption under § 501(c)(7) of the Code. You do not promote commingling and fellowship as a material part of your operations. As a result, you do not operate substantially for pleasure, recreational or other nonprofitable purposes and are not exempt under § 501(c)(7) of the Code.

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter. We will consider your statement and decide if the information affects our determination.

Your protest statement should be accompanied by the following declaration:

*Under penalties of perjury, I declare that I have examined this protest statement, including accompanying documents, and, to the best of my knowledge and belief, the statement contains all the relevant facts, and such facts are true, correct, and complete.*

You also have a right to request a conference to discuss your protest. This request should be made when you file your protest statement. An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you. If you want representation during the conference procedures, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at [www.irs.gov](http://www.irs.gov), Forms and Publications.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to this address:

Internal Revenue Service  
TEGE

1111 Constitution Ave., N.W.  
Washington, D.C. 20224

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Michael Seto  
Manager, EO Technical