

A country club that annually hosts a golf tournament to which the general public is admitted for a charge and uses the net income therefrom for club purposes does not qualify for exemption under section 501(c)(7) of the Code.

Advice has been requested whether under the circumstances described below a social club that annually hosts a golf tournament qualifies for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The club was organized to maintain a country club for the promotion and enjoyment of golf and other sports for its members and to engage in the usual activities of a country club. In addition, the club annually hosts a golf tournament which attracts large numbers of spectators. During the tournaments the club derives substantial receipts from admission fees, broadcasting rights, parking fees, and food and beverage concessions. The net income from the tournaments is used for capital improvements and club operating expenses.

Section 501(c)(7) of the Code provides that clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes are exempt from Federal income tax provided no part of the net earnings inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1 of the Income Tax Regulations provides that, in general, the exemption extends to social and recreation clubs which are supported by membership fees, dues, and assessments. However, a club which engages in business, such as making its social and recreational facilities available to the general public, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a).

Based on the facts presented, this club is not exempt from Federal income tax under section 501(c)(7) of the Code since (1) it is engaged in business with the general public by hosting an annual golf tournament to which the public is admitted for a charge, and (2) income from the tournaments is inuring to the benefit of the members in the form of improved facilities and increased services. See Rev. Rul. 58-589, C.B. 1958-2, 266.