

How did BHMGC become a 501(c)(7) – Social and Recreation Club?

Bunker Hills Men's Golf Men's club is a 501c7 nonprofit organization. 2014 was the first year in Men's club history to report financial information to the state and federal government and therefore subject to government oversight. Men's club financial information is prepared and submitted in accordance with the 501c7 reporting standards and criteria. The Men's club has retained the accounting services of *Hubmer, Enstad, Ovik & Co. Ltd.* to file our annual financial information.

Prior to becoming a 501c7 organization the Men's club financial information was not subject to formal member oversight & therefore limited information is available as to specific disposition of Men's club assets. In 2014 the Men's club retained the services of a tax attorney to assist the Men's club in navigate & resolve a financial situation that put the Men's club at risk of continuing our operation.

Limited informal operational oversight prior to 2014 precipitated the investigation and ultimate decision to formally organize as a nonprofit organization thereby being held to a higher standard of accounting as well as operational processes. The success of the men's club coupled with the technological efficiencies employed in the operation have created an environment that requires financial tracking that is compliant with current state and federal guidelines.

To learn more about 501c organizations go to <https://www.irs.gov/pub/irs-pdf/p4221nc.pdf>

501(c)(7) - Social and Recreation Clubs

If your club is organized for pleasure, recreation, and other similar non-profitable purposes and substantially all of its activities are for these purposes, it should file Form 1024 to apply for recognition of exemption from federal income tax.

In applying for recognition of exemption, you should submit the information described in this section. Also see [chapter 1](#) for the procedures to follow.

Typical organizations that should file for recognition of exemption as social clubs include:

- College alumni associations that are not described in chapter 3 under [Alumni association](#) ,
- College fraternities or sororities operating chapter houses for students,
- Country clubs,
- Amateur hunting, fishing, tennis, swimming, and other sport clubs,

- Dinner clubs that provide a meeting place, library, and dining room for members,
- Hobby clubs,
- Garden clubs, and
- Variety clubs.

Discrimination prohibited. Your organization will not be recognized as tax exempt if its charter, bylaws, or other governing instrument, or any written policy statement provides for discrimination against any person on the basis of race, color, or religion.

However, a club that in good faith limits its membership to the members of a particular religion to further the teachings or principles of that religion and not to exclude individuals of a particular race or color will not be considered as discriminating on the basis of religion. Also, the restriction on religious discrimination does not apply to a club that is an auxiliary of a fraternal beneficiary society (discussed later) if that society is described in section 501(c)(8) and exempt from tax under section 501(a) and limits its membership to the members of a particular religion.

Private benefit prohibited. No part of the organization's net earnings can inure to the benefit of any person having a personal and private interest in the activities of the organization. For purposes of this requirement, it is not necessary that net earnings be actually distributed. Even undistributed earnings can benefit members. Examples of this include a decrease in membership dues or an increase in the services the club provides to its members without a corresponding increase in dues or other fees paid for club support. However, fixed-fee payments to members who bring new members into the club are not an inurement of the club's net earnings, if the payments are reasonable compensation for performance of a necessary administrative service.

Purposes. To show that your organization possesses the characteristics of a club within the meaning of the exemption law, you should submit evidence with your application that personal contact, commingling, and fellowship exist among members. You must show that members are bound together by a common objective of pleasure, recreation, and other nonprofitable purposes.

Fellowship need not be present between each member and every other member of a club if it is a material part in the life of the organization. A statewide or nationwide organization that is made up of individual members, but is divided into local groups, satisfies this requirement if fellowship is a material part of the life of each local group.

The term other non-profitable purposes means other purposes similar to pleasure and recreation. For example, a club that, in addition to its social activities, has a plan for the payment of sick and death benefits is not operating exclusively for pleasure, recreation, and other non-profitable purposes.

Limited membership. The membership in a social club must be limited. To show that your organization has a purpose that would characterize it as a club, you should submit evidence with your application that there are limits on admission to membership consistent with the character of the club.

A social club that issues corporate membership is dealing with the general public in the form of the corporation's employees. Corporate members of a club are not the kind of members contemplated by the law. Gross receipts from these members would be a factor in determining whether the club qualifies as a social club. See [Gross receipts from nonmembership sources](#), later. Bona fide individual memberships paid for by a corporation would not have an effect on the gross receipts source.

The fact that a social club may have an associate (nonvoting) class of membership will not be, in and of itself, a cause for nonrecognition of exemption. However, if one membership class pays substantially lower dues and fees than another membership class, although both classes enjoy the same rights and privileges in using the club facilities, there may be an inurement of income to the benefited class, resulting in a denial of the club's exemption.

Support. In general, your club should be supported solely by membership fees, dues, and assessments. However, if otherwise entitled to exemption, your club will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Business activities. If your club will engage in business, such as selling real estate, timber, or other products or services, it generally will be denied exemption. However, evidence submitted with your application form that your organization will provide meals, refreshments, or services related to its exempt purposes only to its own members or their dependents or guests will not cause denial of exemption.

Facilities open to public. Evidence that your club's facilities will be open to the general public (persons other than members or their dependents or guests) may cause denial of exemption. This does not mean, however, that any dealing with outsiders will automatically deprive a club of exemption.

Gross receipts from nonmembership sources. A section 501(c)(7) organization can receive up to 35% of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. Income from nontraditional business activity with members is not exempt function income, and thus is included as income from sources outside of the membership. Of the 35% gross receipts listed above, up to 15% of the gross receipts can be derived from the use of the club's facilities or services by the general public. If an organization has outside income that is more than these limits, all the facts and circumstances will be taken into account in determining whether the organization qualifies for exempt status.

Gross receipts. Gross receipts, for this purpose, are receipts from the normal and usual (traditionally conducted) activities of the club. These receipts include charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments. Receipts do not include initiation fees and capital contributions. Unusual amounts of income, such as from the sale of a clubhouse or similar facility, are not included in gross receipts or in figuring the percentage limits.

Nontraditional activities. 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. Nontraditional business activities do not further the exempt purposes of a social club even if conducted solely on a

membership basis. Nontraditional business activities are prohibited (subject to an insubstantial, trivial, and nonrecurrent test) for businesses conducted with both members and nonmembers. Examples of nontraditional business activities include sale of package liquor, take-out food, and long-term room rental.

Fraternity foundations. If your organization is a foundation formed for the exclusive purpose of acquiring and leasing a chapter house to a local fraternity chapter or sorority chapter maintained at an educational institution and does not engage in any social or recreational activities, it may be a title holding corporation (discussed later under section 501(c)(2) organizations and under section 501(c)(25) organizations) rather than a social club.

Tax treatment of donations. Donations to exempt social and recreation clubs are not deductible as charitable contributions on the donor's federal income tax return.