

Revenue Ruling 75-494-Maintenance of Streets Prevents Association from Qualifying for Exemption under IRC Section 501(c)(7)

Cross Reference Data

Topical

Exempt organizations Form 990
Recreational organizations Streets

Citation

IRC Section---501(c)(7)
Regulations Sections-1.337(d)-4, 1.501(c)(7)-1
Revenue Ruling-69-281
Private Letter Ruling-200728048

Summary

According to Rev. Rul. 75-494, a homeowners' association will not qualify for exemption from federal taxation as a recreational club under IRC Sec. 501 (c)(7) if it:

Owns and maintains residential streets that are not a part of its social facilities.

Administers and enforces covenants for preserving the architecture and appearance of the housing development.

Provides the housing development in which its members live with fire and police protection and a trash collection service.

Maintenance of Streets Prevents Association from Qualifying for Exemption under IRC Section 501(c) (7)

Rev. Rul. 75-494,1975-2 CB 214, (Jan. 1, 1975)

Section 501.--EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC. 26 CFR 1.501(c)(7)-1: Social clubs. Qualification; homeowner associations as social clubs.-A club providing social and recreational facilities, whose membership is limited to homeowners of a housing development, will be precluded from qualifying for exemption under section 501 (c) (7) of the Code by owning and maintaining residential streets, enforcing restrictive covenants, or providing residential fire and police protection and trash collection service.

The Internal Revenue Service has received inquiries asking whether certain activities engaged in by clubs similar to the club described in Rev. Rul. 69-281, 1969-1 C.i3. 155, will preclude their exemption under section 501(c)(7) of the Internal Revenue Code of 1954.

Rev. Rul. 69-281 holds that a club whose membership is limited to homeowners in a housing development and that provides recreational facilities that afford opportunities for fellowship and

social commingling is exempt from Federal income tax under section 501 (c)(7) of the Code. Although the club was incorporated by a housing developer, it is not controlled by him nor operated as a commercial venture for his benefit.

Section 501 (c) (7) of the Code provides for exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.

Question 1:

Will a club fail to qualify for exemption under section 501(c) (7) of the Code if it owns and maintains residential streets which are not a part of its social facilities?

Answer:

Yes. A street providing immediate access to a club's golf course could be considered part of the course, and thus part of a social facility. However, streets primarily serving residential areas are not a part of a club's social facilities, even though members must travel on them to reach the social facilities. Thus, a club which owns and maintains residential streets is not operated exclusively for pleasure, recreation, and other non-profitable purposes as required by section 501 (c) (7) of the Code.

Question 2:

Will a club fail to qualify for exemption under section 501 (c)(7) of the Code if it administers and enforces covenants for preserving the architecture and appearance of the housing development?

Answer:

Yes. A club which administers and enforces covenants for the preservation of the architecture and appearance of the housing development is not operated exclusively for pleasure, recreation, and other non-profitable purposes as required by section 501 (c)(7) of the Code.

Question 3:

Will a club fail to qualify for exemption under section 501(c)(7) of the Code if it provides the housing development in which its members live with fire and police protection and a trash collection service?

Answer:

Yes. A club may provide these services in connection with the maintenance and security of its social facilities. However, as soon as these services go beyond merely maintaining social facilities and begin to include services to residential areas, they are no longer exclusively in furtherance of pleasure and recreation. Thus, a club providing police and fire protection and a trash collection service to residential areas will not qualify for exemption under section 501(c)(7) of the Code.

Note:

a In the authors' opinion, a planned unit development that maintains roads will not qualify for exemption under IRC Sec. 501 (c) (7) .

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