

Guidelines for Social and Recreational Organizations

We issue tax-exempt status to social and recreational organizations who meet the provisions under California Revenue and Taxation Code (R&TC) Section 237101g.

R&TC Section 23701g is the same as Internal Revenue Code (IRC) Section 501(c)(7). We use IRC Section 501(c)(7) interpretations, regulations, and rulings, to interpret Section 23701g.

Who Qualifies

Organizations developed and operated for:

- Pleasure.
- Recreation.
- Other nonprofit purposes, where substantially all of the activities are for pleasure and recreation, and no part of the net earnings support the benefit of any private shareholder.

How to Apply

File Form 3500, *Exemption Application*, to apply for tax-exempt status from California franchise or income tax.

Membership Characteristics

These organizations must be supported almost entirely from dues, fees, and assessments paid by members. Normally there should be only one class of members with all members paying equal dues and having equal rights.

Some organizations may in effect be two organizations, with some members paying less dues and having rights to use social facilities, while other members have rights to use all facilities.

When there is more than one class of members, Form 3500, *Exemption Application*, must clearly show that one class of members do not benefit from the different dues, or rights of another class of members.

Sample Purposes

Some purposes that qualify under R&TC Section 23701g are:

- Operate a social organization for the use and enjoyment of members.
- Operate social and recreational facilities for the use and enjoyment of members.
- Operate a fraternity or sorority for the use and enjoyment of members.
- Promote and enjoy (by the members) a specific sport, or hobby such as:
 - C.B. radios
 - Cars
 - Cooking
 - Dogs
 - Fishing
 - Flying airplanes
 - Four wheel drive motoring
 - Golf
 - Horses
 - Hunting
 - Motorcycles
 - Quilting
 - Sewing
 - Trailers
 - Other organizations

Cause for Denial or Revocation

We may deny or revoke an organization's tax-exempt status for the following reasons:

- Income from non-members or guests that benefits members. Refer to IRS Revenue Procedure 71-17 for more information on allowable nonmember use.
- Income from a combination of investment income and receipts from the general public should not exceed 35% of gross receipts; however, general public income may not represent more than 15% of total receipts. (Public Law 94-568, 1976-2 C.B. 596).

General Public Participation

Occasional events where organizations receive income from the general public may be permissible so long as the members do not benefit from the nonmember participation and organizations donate any net profits from the nonmember participation to a charitable organization on an annual basis.

Include the following paragraph with your creating document when your social and recreational organization may have nonmember income from one or two events each year, to which the general public is invited:

"If this organization holds any event(s) which members of the general public are invited to observe or participate in for a fee, the income from the general public, less a proportional share of the expenses which will not benefit members, will be given to an organization which is exempt from income tax under R&TC Section 23701d or IRC Section 501(c)(3) on an annual basis."

Other Publications

Get IRS Publication 557, *Tax-Exempt Status for Your Organization*, for more information regarding these types of organizations.