



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE
TE/GE: EO Examination
625 Fulton Street, Room 503
Brooklyn, NY 11201

200449045

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: May 7, 2004

Taxpayer Identification Number:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

U/L: 501.00-00

Dear Sir or Madam:

Pursuant to our letter dated November 12, 1980, you were granted exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

A review of your records disclosed that you operate a gated homeowners association of lots with homes. You maintain your private roads, including residential roads and common areas designated as recreational areas including a clubhouse, reading room, swimming pool, marina, miniature golf course, and a campground for the use of all residents. You also enforce restrictive covenants, engage in architectural review, and collects money for trash collection service.

You maintain reserves for roads, campground, office, pool, clubhouse, entry gate, building maintenance, vehicles, equipment maintenance, marina, fire department, and common area.

Article III, Section 2 (h) of your By-Laws provides for associate membership open to “

You receive non-member income from guest watercraft fees, recycled cans and glass, sales of advertisements in a telephone directory, and funding from for a

Internal Revenue Code section 501(c)(7) exempts from taxation clubs organized for pleasure, recreation, and other non-profit purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Treasury Regulations 1.501(c)(7)-1(a) provides that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not

apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs, which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Revenue Ruling 75-494, 1975-2 CB 214 states that a club providing social and recreational facilities, whose membership is limited to homeowners of a housing development, owns and maintains residential streets which are not part of its social facilities, 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 nonprofitable purposes as required by section 501(c)(7) of the Code.

Revenue Ruling 58-589, 1958-2 CB 266 states that 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) of the Code.

Your primary activity is managing and maintaining common areas of your private recreational community by maintaining residential streets, enforcing restrictive covenants, and conducting architectural review, etc. The use of facilities by associate members and short-term commercial guests for a fee represents public patronage of the organization's facilities. You are not a social club providing exclusive membership to homeowners in a housing development.

Like the organizations in Revenue Rulings 75-494 and 58-589, you own and maintain residential streets, enforce restrictive covenants, provide residential fire and police protection, trash collection service and provide services to non-members for a fee. Therefore, you do not meet the requirements for exemption from Federal income tax under section 501(c)(7) of the Code.

Accordingly, your exemption under section 501(c)(7) of the Internal Revenue Code is revoked effective January 1,

We have determined that you fail to qualify for exemption from Federal income tax under any other subsection of IRC 501(c).

You agreed to the above revocation by signing Form 6018-A.

You are required to file Federal income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for all years beginning January 1.

This is a final adverse determination of your exempt status under section 501(c)(7) of the Internal Revenue Code.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate

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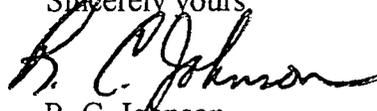
can, however, see that a tax matter that may not have been resolved through normal channel gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service
55 S. Market Street, Stop HQ000-4
San Jose, CA 95113
(408) 817-6850

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely yours,



R. C. Johnson
Director, EO Examinations