

Fraternities, country clubs, hobby clubs and sports clubs all are examples of groups organized for social, recreational and similar nonprofit purposes that are tax exempt under Section 501(c)(7) of the Internal Revenue Code.

What is a 501(c)(7) social organization?

Not all tax-exempt organizations are private foundations or public charities. Under Internal Revenue Code Section 501(c)(7), [social clubs](#) like fraternities and country clubs can be recognized as tax-exempt organizations.

What is a 501(c)(7) social club?

Generally, social clubs are membership organizations primarily supported by funds paid by their members. In order to qualify as a tax-exempt organization, a social club must meet the following requirements:

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- Membership is limited
- Organized for pleasure, recreation, and other non-profitable purposes
- Substantially all of its activities must further those purposes
- Must provide an opportunity for personal contact amongst members; there must be a “commingling” of the members for social, recreational, or similar purposes
- Supported by membership fees, dues, and assessments
- Net earnings may not inure to the benefit of any person having a personal and private interest in its activities
- May not hold itself out as providing goods and services to the general public
- Cannot provide pleasure or recreation on a commercial basis

What are examples of social clubs?

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- College fraternities and sororities
- Country clubs
- Amateur hunting, fishing, tennis, swimming and other sport clubs
- Hobby clubs
- Yacht clubs

Why are social clubs allowed to apply for tax-exemption?

Congress reasoned that social clubs should be allowed to apply for tax-exempt status since individual members of the club would be in substantially the same position if the individual had spent his/her after-tax income on pleasure or recreation without the social club. The reasoning for the exemption is valid only if the club's income stems from members.

How are social clubs funded?

Member income funds social clubs. This can be in the form of membership fees, dues, or assessments.

However, 501(c)(7) organization may receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing its tax-exempt status. No more than 15 percent of the amount may be derived from use of the club's facilities or services by the general public or from other activities not furthering social or recreational purposes for members.

If an organization has nonmember income exceeding these limits, all the facts and circumstances will be considered in determining whether the club continues to qualify for exemption .

Can a social club limit its membership to a specific religion?

Yes, a club may, in good faith, limit its membership to members of a particular religion in order to further the teachings or principles of that religion. It may not exclude individuals of a particular race or color.

501(c)(7) vs. 501(c)(3)

Applying for exemption under 501(c)(7) as a social club allows a group to pool their money in pursuit of an exempt purpose without being subject to an additional tax. This can be helpful when a group of individuals wants to build a recreational facility like a swimming pool or tennis court. Individuals who become members can contribute to purchase of the facility and utilize it according to the club's rules.

501(c)(3) organizations must spend their income on activities that further their exempt purpose, which is a charitable cause. 501(c)(7) social clubs' exempt purpose does not have to be charitable, but it must be social or recreational and non-profitable.

501(c)(7) are limited to membership. Instead of operating like a business for the public, social clubs only serve members.

If a group forms a social club and allows nonmembers to utilize its facilities, services, and/or programs, then the club must keep careful records of nonmembers' use. Social clubs must also ensure that nonmember income does not exceed the limits established by the IRS.

Do social clubs have to file annual returns?

Yes, social clubs are similar to other tax-exempt entities in that they must file annual returns each year. The type of [Form 990](#) is contingent on gross receipts and other factors.

Learn More about 501c7 Social and Recreational Organizations – How to stay tax-exempt

Cullinane Law: [Nonprofit vs. Tax-Exempt](#)

IRS information on [social clubs](#)

More Questions? We Can Help.

[The Cullinane Law Group](#) works exclusively with the nonprofit tax-exempt sector: new nonprofits, foundations, religious groups, and social entrepreneurs throughout the United States who seek to create positive change.