

Academy of Model Aeronautics

5161 East Memorial Drive
Muncie, Indiana 47302
(765) 287-1256 – Business
(765) 289-4248 – Fax
(800) 435-9262 – Membership Services
<http://www.modelaircraft.org>



Local Clubs and Tax-Exempt Status Under Internal Revenue Code Section 501 (c) (7)

Tax-exempt status for AMA local clubs is available under Internal Revenue Code Section 501(c)(7). This section provides for the tax exemption of clubs "organized for pleasure, recreation, and other non-profitable 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." Generally, this tax exemption extends to social and recreation clubs such as local AMA flying clubs, which are supported, mainly by membership fees, dues and assessments. The running of lotteries, contests and other public functions will not disqualify a club from Section 501(c)(7) status as long as no private inurement results.

In order to qualify as a tax-exempt social club, the AMA local organization must not only be nonprofit but must meet both an organizational test and an operational test. To satisfy the requirement of a pleasure, recreation, or other permissible purpose, the club must have an established membership of individuals, personal contacts and fellowship. A co-mingling of the members must play a material part in the life of the organization. The AMA local clubs should have no problems meeting these qualifications. To the IRS, the criterion of providing pleasure or recreation by a social club to its members is paramount to the qualification of the club for tax exemption.

An important issue concerning tax-exempt status is the private inurement doctrine. The application of this doctrine to tax-exempt social clubs focuses on the question as to whether non-member use is generating revenue the use of which (such as for maintenance and improvement of club facilities) is unduly advantageous to the members (as represented by reduced dues, improved facilities, and the like). However, the use of club facilities by the general public may not constitute proscribed inurement where the club contributes any net profits from a function to a charity. Infrequent public use is permissible as long as it is incidental and basically in furtherance of the club's purposes. As long as events such as raffles, contests and trade shows involving non-members of the AMA local club do not generate a substantial portion of the revenue of the local club, i.e. no more than twenty percent, 501(c)(7) status should be available.

In order to obtain tax-exempt status under Internal Revenue Code 501(c) (7), a local organization must apply to the Internal Revenue Service on the appropriate forms. The information that the IRS requires includes a detailed statement of the organization's activities, the organization's present and future sources of financial support, and a statement of revenues and expenses for several years. In order to make sure that the forms are filled out correctly, the local club should contact competent counsel to assist them with this process. If the requisite formalities are followed, the AMA local club will be able to enjoy the benefits of tax-exempt status.