

Internal Revenue Service
Director, EO Rulings & Agreements
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

Date: April 12, 2004

J-105 CLASS ASSOCIATION

C/O NELSON WEIDERMAN
127 SCHOONER DR

WAKEFIELD, RI 02879

Employer Identification Number:
16-1630724
Document Locator Number:
17053-100-04203-4
Toll Free Number: 877-829-5500
FAX Number: 513-263-3756
Application Form: 1024
User Fee Paid: \$500.00

Acknowledgement of Your Request

We received your application for exemption from federal income tax. When communicating with us, please refer to the employer identification number and document locator number shown above.

What Happens Next?

Your application was entered into our computer system at our processing center in Covington, Kentucky, and has been sent to our Cincinnati office for initial review. We approve some applications based on this review. If this is the case, you will receive a letter stating that you are exempt from federal income tax.

If the initial review indicates that additional information or changes are necessary, your application will be assigned to an Exempt Organization Specialist who will call or write you. We assign applications in the order we receive them.

If the additional information indicates that you qualify for exemption, you will receive a letter stating that you are exempt from federal income tax. If you do not qualify for exemption, we will send you a letter telling you why we believe you do not qualify and will include a complete explanation of your appeal rights.

The IRS does not issue "tax exempt numbers" or "tax exempt certificates" for state or local sales or income taxes. If you need exemption from these taxes, contact your state or local tax offices.

How long will this process take?

Normally, you may expect to hear from us within 120 days. If you do not, call our toll free number between the hours of 8 a.m. and 6:30 p.m. Eastern Time. Please have your identification numbers available so that we can identify your application. If you would rather write than call, please include a copy of this notice with your correspondence.

INTERNAL REVENUE SERVICE
P. O. BOX 2508
CINCINNATI, OH 45201

DEPARTMENT OF THE TREASURY

Date: *September 27, 2004*

J/105 CLASS ASSOCIATION
C/O NELSON WEIDERMAN
127 SCHOONER DR
WAKEFIELD, RI 02879-5430

Employer Identification Number:
16-1630724
DLN:
17053100042034
Contact Person:
MARC KENNEDY *Bldg # 5D-07036* ID# 52413
Contact Telephone Number:
(410) 962-4245
Response Due Date:
October 18, 2004

Dear Applicant:

Before we can recognize your organization as being exempt from Federal income tax, we must have enough information to show that you have met all legal requirements. You did not include the information needed to make that determination on your Form 1024, Application for Recognition of Exemption Under Section 501(a) or for Determination Under Section 120.

To help us determine whether your organization is exempt from Federal income tax, please send us the requested information by the above date. We can then complete our review of your application.

If we do not hear from you within that time, we will assume that you do not want us to consider the matter further and will close your case. As a result, the Internal Revenue Service will treat your organization as a taxable entity. If we receive the information after the response due date, we may ask you to send us a new Form 1024.

Please mail information requested in this letter to the following address:

Internal Revenue Service
TE/GE T:EO:RA:D - Group 7881
P.O. Box 13163, Room 1400
Baltimore, MD 21203

Letter 1313 (DC/PL)

J/105 CLASS ASSOCIATION

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Thank you for your cooperation.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Mary Keady". The signature is written in black ink and is positioned below the typed name "Mary Keady".

Exempt Organization Specialist

Enclosure:

List of Missing Items

J/105 Class Association

Please provide the following information over the signature of an authorized officer:

- 1) The Constitution you submitted with your application is not a **conformed** copy of the document. We need a conformed copy, either in the form of a photocopy of the original document showing when it was adopted and by whom, or in the form of a copy with an attached statement indicating the document is a true and correct copy of the original document and **stating when it was originally adopted. The statement should be signed by at least two officers.** Please see the attached page 3 from the application Form 1024 instructions, which explains conformed copies.
- 2) Please provide the number of members in your "Sponsoring Member" class of members, along with the amount of money they pay yearly. Show the total for each of the past 3 years (2001-2003).
- 3) You indicate you receive income from "sail tag royalties". While you did provide a brief description of this activity, I am still unclear on some aspects. Therefore, please provide the following information:
 - a) What is the amount of royalty per sail? How and by whom is this determined?
 - b) How many sail making companies participate in this? Is it just one company, or do multiple companies make sails for your members? Do they all participate in the royalty arrangement?
 - c) Is the royalty payment directly related to the purchase of a sail by one of your members? Please explain how this arrangement operates.
 - d) Is there any formal agreement or contract regarding the sale royalty payments between your organization and the sail makers? If so, please provide a copy.
- 4) Please explain the activity of mailing list sales. Who do you sell these to? Why?
- 5) You show income from advertising. Please explain who is placing these advertisements, and where they are placed. Is this income from non-members? Please explain.

Generally, organizations qualifying under section 501(c)(7) of the Code are limited to no more than 35% of their annual gross receipts being derived from a combination of investment income and receipts from non-members, the latter of which cannot exceed 15% of their gross receipts.

Investment income and receipts from non-members received by a section 501(c)(7) organization, even if less than the allowable percentages of gross receipts, is subject to the tax on unrelated business income imposed under section 511. Section 512(a)(3)(A) provides, in part, that only "exempt function income" of a section 501(c)(7) organization is exempt from tax. "Exempt function income" means gross income from dues or fees paid by members as consideration for providing such members or their dependents or guests goods, facilities, or services related to the exempt social or recreational purposes of the organization. The exceptions to unrelated business income provided for under sections 512(b) and 513 do not apply to section 501(c)(7) organizations. For example, interest and dividends received by section 501(c)(7) organizations are taxable as unrelated business income. Cash and merchandise given to the organization are taxable income, if received from non-members. Even some payments received from members may constitute taxable income, if received in connection with activities not related to social or recreational purposes conducted by the club, i.e. sales of merchandise not used in club activities.

If a club allows non-members to participate in some or all of its activities for which fees are charged, detailed records must be kept to separate nonmember receipts from amounts received from members. The recordkeeping requirements are described in Rev. Proc. 71-17, 1971-1 C.B. 683 (copy enclosed).

- 6) Please submit a statement, signed and dated by an principal officer, stating you will operate in such a manner as to ensure that non-member receipts do not exceed permissible levels under current or future United States Internal Revenue law, and you will comply with the recordkeeping requirements detailed in Revenue Procedure 71-17. Explain the changes you will put into effect to achieve these goals.

(4)

J/105 Class Association

- 7) What control, if any, does J Boats, Inc. (the "copyright holder") have over your organization and its activities? Please explain.

Please note, nonmember income (interest, dividends, income from nonmembers) is considered unrelated business income to 501(c)(7) organizations, and would result in a liability for unrelated business income tax. Income from non-members may also preclude exemption under section 501(c)(7). Membership in a 501(c)(7) organization is limited to individuals (as opposed to entities).

Please feel free to call me at (410) 962-4245 with any questions regarding this letter. If you wish, you may fax your response, **to my attention**, at (410) 962-8193. If you fax your response, please call to confirm receipt.

.....

J **105**

Class Association

October 5, 2004

IRS c/o Mr. Marc Kennedy
TE/GE T:EO:RA:D – Group 7881
PO Box 13163, Room 1400
Baltimore, MD 21203

Dear Mr. Kennedy:

We are in receipt of your letter of 9/27 requesting additional information for our application as a tax exempt organization. Here are the answers to your questions:

1. We have enclosed a conformed copy of our constitution. The signatories to this letter are current officers of the organization and attest that it is a true and correct copy of our constitution. It was originally adopted at our annual meeting in 1999 and has been amended at two of our annual meetings since then. The current version was last amended by our Executive Committee on September 9, 2002.
2. We have never had a "Sponsoring Member" and do not anticipate having any in the near future.
3. With regard to our sail royalties:
 - a. The amount is \$25 per sail. This is determined by the Executive Committee from time to time.
 - b. There are about ten sail making companies that participate in the program, some with multiple lofts throughout the country. All participate in the royalty program because only sails that are "tagged" are eligible for one-design racing.
 - c. The royalty payment is directly related to the purchase of the sail by members.
 - d. We charge the sailmakers for royalty tags and they, in turn, pass along the \$25 cost to the purchasers.
 - e. There is no formal agreement or contract. The system works because, by our rules, the members cannot sail in one-design events without tagged sails.
4. We sell our mailing list to sailmakers who sell us sails, to sailing schools who solicit members to enroll in their schools, and to event organizers who solicit members to sail in their events.
5. Income from advertising is probably incorrectly categorized. We currently have no income from advertising. What that represents is reimbursement from J Boats, Inc. for an advertising expense. We place ads to promote our Class in Sailing World.

.....

One-design, year around, home and away.

6. This letter will constitute a signed statement that we pledge to operate in such a manner as to ensure that non-member receipts do not exceed permissible levels under current or future United States Internal Revenue law and that we will comply with the recordkeeping requirements detailed in Revenue Procedure 71-17. No changes are required to achieve this goal.
7. J Boats, Inc. (the "copyright holder") has one vote (of 35) on the Executive Committee. That is the only control they have over the Class Organization and its activities.

There are two questions that perhaps you could answer for us:

1. We anticipate that in the future we may have advertising revenue from either our web site, our newsletter, or a new annual magazine, each of which serves our members and promotes the Class. This would appear to us to be "related" rather than "unrelated" business income and subject to the maximum of 15% of gross receipts. Can you confirm this?
2. In anticipation of receiving a favorable determination, we have filed a 990 for 2003. Are any further filings required to bring us up to date, assuming we receive a favorable determination?

Thank you for your time and consideration.

Sincerely,



*Nelson Weideman
Secretary/Treasurer*

*Robert Smith
President*