



DEPARTMENT OF THE TREASURY

Internal Revenue Service
TE/GE EO Examinations
1100 Commerce Street
Dallas, TX 75424

TAX EXEMPT AND GOVERNMENT ENTITIES DIVISION

November 26, 2007

Number: 200809037
Release Date: 2/29/2008

Legend

ORG = Organization address Address = address XX = Date

UIL:501.03-01

ORG
Address

Person to Contact:
Identification Number:
Contact Telephone Number:
In Reply Refer to: TE/GE Review Staff
EIN:

CERTIFIED MAIL – RETURN RECEIPT

LAST DATE FOR FILING A PETITION
WITH THE TAX COURT: February 25, 20XX

Dear :

This is a Final Adverse Determination Letter as to your exempt status under section 501(c)(3) of the Internal Revenue Code. Your exemption from Federal income tax under section 501(c)(3) of the code is hereby revoked effective July 1, 20xx. You are in agreement per signed consent to proposed action on March 26, 20XX.

Our adverse determination was made for the following reasons:

Inurement and/or private benefit of an IRC Section 501(c)(3)'s assets in any form or amount is prohibited. ORG has not been operating exclusively for exempt purposes within the meaning of Internal Revenue Code section 501(c)(3). ORG also is not a charitable organization within the meaning of Treasury Regulations section 1.501(c)(3)-1(d). You are not an organization which operates exclusively for one or more of the exempt purposes which would qualify it as an exempt organization. You operate substantially for a non-exempt purpose; the providing of commercial services.

You failed to meet the requirements of IRC section 501(c)(3) and Treas. Reg. section 1.501(c)(3)-1(d) in that you failed to establish that you were operated exclusively for an exempt

purpose. Rather, you were operated for a substantial non-exempt purpose; providing debt negotiation and debt settlement services.

Contributions to your organization are no longer deductible under section 170 of the Internal Revenue Code. You are required to file Federal income tax returns on Form 1120.

These returns should be filed with the appropriate Service Center for the year ending June 30, 20XX, and for all years thereafter.

Processing of income tax returns and assessment of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination in court, you must initiate a suit for declaratory judgment in the United States Tax Court, the United States Claim Court or the District Court of the United States for the District of Columbia before the 91st day after the date this determination was mailed to you. Contact the clerk of the appropriate court for the rules for initiating suits for declaratory judgment.

You also have the right to contact the office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers.

You can call 1-877-777-4778 and ask for Taxpayer Advocate assistance. Or you can contact the Taxpayer Advocate from the site where the tax deficiency was determined by calling: _____, or writing IRS.

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determinations, nor extend the time fixed by law that you have to file a petition in the United States Tax Court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling.

We will notify the appropriate State Officials of this action, as required by section 6104(c) of the Internal Revenue Code.

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

Sincerely yours,

Marsha A. Ramirez
Director, EO Examinations



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
Internal Revenue Service
Exempt Organizations Examinations
7850 SW 6th Court, Stop 7954
Plantation, FL 33324-3202

August 3, 2007

ORG
Address

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Certified Mail - Return Receipt Requested

Dear _____ :

We have enclosed a copy of our report of examination explaining why we believe revocation of your exempt status under section 501(c)(3) of the Internal Revenue Code (Code) is necessary.

If you accept our findings, take no further action. We will issue a final revocation letter.

If you do not agree with our proposed revocation, you must submit to us a written request for Appeals Office consideration within 30 days from the date of this letter to protest our decision. Your protest should include a statement of the facts, the applicable law, and arguments in support of your position.

An Appeals officer will review your case. The Appeals office is independent of the Director, EO Examinations. The Appeals Office resolves most disputes informally and promptly. The enclosed Publication 3498, *The Examination Process*, and Publication 892, *Exempt Organizations Appeal Procedures for Unagreed Issues*, explain how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

You may also request that we refer this matter for technical advice as explained in Publication 892. If we issue a determination letter to you based on technical advice, no further administrative appeal is available to you within the IRS regarding the issue that was the subject of the technical advice.

If we do not hear from you within 30 days from the date of this letter, we will process your case based on the recommendations shown in the report of examination. If you do not protest this proposed determination within 30 days from the date of this letter, the IRS will consider it to be a failure to exhaust your available administrative remedies. Section 7428(b)(2) of the Code provides, in part: "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted its administrative remedies within the Internal Revenue Service." We will then issue a final revocation letter. We will also notify the appropriate state officials of the revocation in accordance with section 6104(c) of the 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 can, however, see that a tax matter that may not have been resolved through normal channels 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:

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,

Marsha A. Ramirez
Director, EO Examinations

Enclosures:
Publication 892
Publication 3498
Report of Examination

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer ORG		Year/Period Ended June 30, 20XX and June 30, 20XX

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Issues

Does ORG continue to qualify for tax-exempt status under section 501(c)(3) of the Internal Revenue Code as a credit counseling organization operated for section 501(c)(3) purposes, primarily educational purposes?

Does ORG have a substantial non-exempt purpose by providing debt negotiation and debt settlement program services to the general public?

Facts

On July 11, 20XX, ORG filed original articles of incorporation with the XYZ Secretary of State. The articles of incorporation provided that its purpose was “to receive and administer funds for educational and charitable purposes within the meaning of Section 501(c)(3).”

The following individuals were listed as ORG’s directors:

- Director 1
- Director 2
- Director 3

On May 30, 20XX, ORG filed amended articles of incorporation with the XYZ Secretary of State to change:

1. Article VI, Section 1: The conditions of membership in the Corporation shall be as provided in the Bylaws of the Corporation, and
2. Article XI: Principal Place of Business and Mailing Address of Corporation. The principal offices address and mailing address of the Corporation is Address, City, XYZ

On August 15, 20XX, ORG (ORG) filed a Form 1023, Application for Recognition of Exemption, with the Internal Revenue Service. In its Form 1023 application, ORG provides the following in Part II, Activities and Operational Information:

- (A) Organization formed to promote and educate consumers, debtors and general public with respect to financial obligations and potential problems, which may occur from use of credit card financing and other debt.
 - (1) Primary activity shall consist of a debt assistance service, which is designed

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to alleviate enormous interest rates and/or financing costs charged by some creditors to consumers. This activity will allow the organization to assist such consumers with their financial obligations. At the same time these consumers engage the above-described services, educational information will be supplied so that the consumer may be educated of how to avoid specific financial pitfalls.

(2) Secondary activity shall consist of quarterly newsletter designed to increase general public awareness of credit card debt.

(B) Activity will be initiated on or around August 15, 20XX

(C) Activity will be conducted at corporate offices, primarily by and through the corporate president and trained professionals, including attorneys, public accountants and experienced client service support personnel that are specifically trained in the field of debt consolidation.

The Form 1023 also provides the following regarding ORG's sources of income:

% - % of the organization's primary source of financial support shall consist of contributions from business organizations, which deal with consumers who engage the filing organization's services. The remaining sources of financial support shall consist of private contributions. The organization shall solicit contributions from those same business organizations, which deal with consumers who engage the organization's services. Additionally, through limited direct contacts, the organization shall solicit various business organizations for financial assistance.

When ORG submitted its Form 1023 application, the following individuals were listed as its officers and directors:

<u>Position</u>	<u>Name</u>	<u>Address</u>
President/Director	Director 1	Address City, XYZ
Treasurer/Director	Director 2	Address City, XYZ
Clerk/Director	Director 3	

In a determination letter dated March 5, 20XX. ORG was recognized as exempt from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code.

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During the examination for the periods ending June 30, 20XX and June 30, 20XX, the taxpayer has described its primary exempt purpose on its Form 990 (Part II, Statement of Program Accomplishments) as follows:

June 30, 20XX

Primary Exempt Purpose: Debt Counseling	Program Service Expenses
Exempt purpose achievements	
a. Contribution	\$

June 30, 20XX

Primary Exempt Purpose: Credit Counseling	Program Service Expenses
Exempt purpose achievements	
a. For fiscal year 20XX, ORG assisted clients in learning how to be more financially responsible with regards to the proper use of their credit	\$

ORG's initial Form 990 for the period ending June 30, 20XX reported the following: total revenue \$; total expenses \$; net assets \$. The subsequent year a final Form 990 was filed reporting the following: total revenue \$; total expenses \$; and net assets \$.

From reviewing ORG's activities and analyzing their financial history it clearly indicates that ORG is in the business of providing debt negotiation and debt settlement services. In meeting minutes dated September 23, 20XX, the President/CEO of ORG discussed suitable business activities, such as debt management, debt negotiation and debt settlement, for the corporation. Also in August 10, 20XX meeting minutes, the President/CEO of ORG stated, "with changes in the industry, and that comparable programs are now conducted in for-profit organizations, ORG is looking in various new ideas, opportunities and programs." (See Exhibit 1)

The activities of ORG consist of providing three programs: debt negotiation, advance debt negotiation, and the jump start program to clients who are looking to eliminate or reduce debt by providing the following services:

- Providing debt negotiation/debt settlement programs
 1. Act as Power of Attorney to clients creditors to negotiate settlement agreement

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2. Collect monthly payments and hold clients' funds in trust until enough is accumulated to settle outstanding debt
 - Providing jumpstart debt management program
 1. Designed for clients experiencing temporary hardship situations
 2. Payments to creditors are based on regular debt management guidelines and then cut by %
 3. Payments to creditors increase by % each month for six months
 4. Clients will be transferred to regular debt management program once 6 months completed

For the Co-1 and the Co-2, ORG collects a fee in an amount equal to % of the difference between the creditor's claim and the amount which the creditor agrees to accept in full settlement of the claim. This is reported on the Form 990 as Settlement Fee Revenue. ORG also collects an amount equal to % of the amount of the creditor's claim for any settlement that calls for installments; fees are collected when each installment is made. The clients also pays a service fee of \$ per month for postage and handling, local and long distance telephone calls, photocopies, facsimile charges, bank fees, data processing and account servicing, internal audit review, and other expenses

ORG charges clients enrolled in its Jump Start Program \$ per month for financial consulting and education services. The client is charged an additional \$ for management processing charge. These payments are reported as client contributions on the Form 990.

During the years ended June 30, 20XX and June 30, 20XX, ORG's income was generated from program service revenue, of which settlement fees and client contributions are the primary sources of support. As evidenced in the table below, all of the organization's sources of income with the exception of fair share contributions were generated from fees charged to clients for debt negotiation, debt settlement, and debt management services.

ORG's website and brochure promote the advantages of entering into a debt negotiation or debt settlement program. The following are sample captions from the brochure and website:

- "Eliminate your current debt up to %"
- "Creditors and collection agencies direct all communications to us"
- "Reduce creditor harassment"

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- “Eliminate debt as quickly as possible”
- “Negotiate fair and ethical settlement of your debts”
- “Debt settlements performed by professional Credit Counselors”

Sources of Income

Tax Year Ended June 30, 20XX

Settlement Fee Revenue	\$	\$
Contribution from Client	\$	\$
Cancellation Fee Revenue	\$	\$
Processing Fee Uncollected Broker Inv	\$	\$
Misc Fee Revenue	\$	\$
Broker Processing Fee Revenue	\$	\$
Educational Materials Fee Revenue	\$	\$
Revenue from NSF Reimb by Client	\$	\$
Fair Share Contribution	\$	\$
Processing Fee	\$	\$
Transfer Fee Revenue	\$	\$
Total Revenue	\$	\$

Sources of Income

Tax Year Ended June 30, 20XX

Settlement Fee Revenue	\$	\$
Contribution from Client	\$	\$
Cancellation Fee Revenue	\$	\$
Processing Fee Uncollected Broker Inv	\$	\$
Misc Fee Revenue	\$	\$
Broker Processing Fee Revenue	\$	\$
Educational Materials Fee Revenue	\$	\$
Revenue from NSF Reimb by Client	\$	\$
Fair Share Contribution	\$	\$
Creditor Refund Revenue	\$	\$
Transfer Fee Revenue	\$	\$
Total Revenue	\$	\$

During the years under examination, ORG entered into a number of independent contractor agreements with for-profit entities who provided client referrals for ORG’s debt negotiation and debt settlement programs. The independent contractors acted as enrollment agents who solicited potential clients for ORG and in return the contractors received a pre-determined percentage of monthly commissions and a percentage of the settlement fee when the client settles their debt with creditors. (See Exhibit 2 for a sample of contracts, in addition to a summary of services provided by the independent contractors and fee structure).

In addition to the compensation paid to the independent contractors as a part of the agreement, some of the contracts also included an addendum for these contractors to collect an initial fee from the client. In the “Debtor Payment” section of the agreement it states, “The parties agree that the debtor may pay an initial fee to the Contractor equal to a sum of one month’s payment under a debt negotiation plan or \$, whichever is greater. The parties also agree that the debtor

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may pay an initial fee to the Contractor in the amount of \$ under a debt settlement plan”. (As evidenced in Exhibit 2)

Payments to these independent contractors made up a significant amount of its overall expenses. See table below.

<u>Tax Year</u>	<u>Regular and Residual Commissions</u>	<u>Total Expenses</u>	<u>Percentage of Commissions to Total Expenses</u>
June 30, 20XX	\$	\$	%
June 30, 20XX	\$	\$	%

Commission payments are ORG’s largest expense, excluding leased labor and wage expenses. ORG utilized these independent contractors as referral sources to promote and advertise ORG’s debt negotiation and debt settlement programs.

On December 14, 20XX, ORG sold its client database to Co-3, a related for-profit entity. Co-3 is owned by the president of ORG’s wife. Prior to the sale of the database, Co-3 solicited and procured clients for ORG through an independent contractor agreement. The terms of the sale include the Client Lists (database) and other intellectual property. The total purchase price is \$. Co-3 is to pay % of the income generated, collected, and cleared during the month to be payable every 15th of the following month. Payments commenced on January 1, 20XX and will cease when either the total \$ balance is paid in full or no income is generated from the database. As of August 23, 20XX, CO-3 has paid ORG \$ toward the \$ note. (See Exhibit 3 for complete sales agreement)

Currently ORG has no activities, but has not dissolved its corporate status or terminated its tax exempt status.

Law

Section 501(c)(3) of the Code exempts from federal income tax corporations organized and operated exclusively for charitable, educational, and other purposes, provided that no part of its net earnings inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(b)(1)(i) of the Code provides that an organization is organized exclusively for one or more exempt purposes only if its articles of organization (referred to in this section as its “articles”) as defined in subparagraph (2) of this paragraph:

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- (a) Limit the purposes of such organization to one or more exempt purposes; and
- (b) Do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities that accomplish one or more of such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(c)(2) of the regulations provides that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Section 1.501(a)-1(c) defines the words "private shareholder or individual" in section 501 to refer to persons having a personal and private interest in the activities of the organization.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, to meet the requirements of this subsection, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests, such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Section 1.501(c)(3)-1(d)(2) of the regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense and includes relief of the poor and distressed or of the underprivileged as well as the advancement of education.

Section 1.501(c)(3)-1(d)(3) of the regulations provides that the term "educational" refers to:

- (a) The instruction or training of the individual for the purpose of improving or developing his capabilities; or
- (b) The instruction of the public on subjects useful to the individual and beneficial to the community.

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Section 1.501(c)(3)-1(e)(1) of the regulations provides that an organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purposes of carrying on an unrelated trade or business.

In *Better Business Bureau of Washington D.C., Inc. v. United States*, 326 U.S. 279 (1945), the Supreme Court held that the presence of a single non-exempt purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly exempt purposes. The Court found that the trade association had an "underlying commercial motive" that distinguished its educational program from that carried out by a university.

In *American Institute for Economic Research v. United States*, 302 F.2d 934 (Ct. Cl. 1962), the Court considered an organization that provided analyses of securities and industries and of the economic climate in general. It sold subscriptions to various periodicals and services providing advice for purchases of individual securities. The court noted that education is a broad concept, and assumed arguendo that the organization had an educational purpose. However, the totality of the organization's activities, which included the sale of many publications as well as the sale of advice for a fee to individuals, was indicative of a business. Therefore, the court held that the organization had a significant non-exempt commercial purpose that was not incidental to the educational purpose, and was not entitled to be regarded as exempt.

In *Consumer Credit Counseling Service of Alabama, Inc. v. United States*, 78-2 U.S.T.C. 9660 (D.D.C. 1978), the court held that an organization that provided free information on budgeting, buying practices, and the sound use of consumer credit qualified for exemption from income tax because its activities were charitable and educational.

The Consumer Credit Counseling Service of Alabama is an umbrella organization made up of numerous credit counseling service agencies. These agencies provided information to the general public through the use of speakers, films, and publications on the subjects of budgeting, buying practices, and the sound use of consumer credit. They also provided counseling on budgeting and the appropriate use of consumer credit to debt-distressed individuals and families. They did not limit these services to low-income individuals and families, but they did provide such services free of charge. As an adjunct to the counseling function, they offered a debt management plan. Approximately 12 percent of a professional counselor's time was applied to the debt management plan as opposed to education. The agencies charged a nominal fee of up to \$ 10 per month for the debt management plan. This fee was waived in instances when payment of the fee would work a financial hardship. The agencies received the bulk of their support from

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government and private foundation grants, contributions, and assistance from labor agencies and the United Way. An incidental amount of their revenue was from service fees.

The court found the organizations exempt under section 501(c)(3) because providing information to the public regarding the sound use of consumer credit is charitable in that it advances and promotes education and social welfare. These programs were also educational because they instructed the public on subjects useful to the individual and beneficial to the community. The counseling assistance programs were likewise charitable and educational in nature. Because the community education and counseling assistance programs were the agencies' primary activities, the agencies were organized and operated for charitable and educational purposes. The court also concluded that the limited debt management services were an integral part of the agencies' counseling function, and thus charitable, but stated further that even if this were not the case, these activities were incidental to the agencies' principal functions.

Finally, the court found that the law did not require that an organization must perform its exempt functions solely for the benefit of low-income individuals to qualify under section 501(c)(3) or to provide its services solely without charge. Nonetheless, these agencies did not charge a fee for the programs that constituted their principal activities. They charged nominal fees for services that were incidental. Moreover, even this nominal fee was waived when payment would work a financial hardship.

In *Easter House v. U.S.*, 12 Ct. Cl. 476 (1987), aff'd 846 F.2d 78 (Fed. Cir 1988), the court found that adoption services were the primary activity of the organization. In deciding that the organization conducted adoption services for a business purpose rather for a charitable purpose, the court considered the manner in which the organization operated. The record established a number of factors that characterize a commercial activity and which were evident in the operations of Easter House also. The court determined that the organization competed with other commercial organizations providing similar services; fees were the only source of revenue; it accumulated very substantial profits, because it set its fees in order to generate a profit; the accumulated capital was substantially greater than the amounts spent on charitable and educational activity; and the organization did not solicit and did not plan to solicit contributions. The court also found a corporate-type structure in the classes of memberships (including a single life member having inherent power that the holder could transfer like stock), and dependence on paid employees.

Government's Position

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Based on the examination conducted, it has been concluded that ORG does not continue to qualify for tax-exempt status as an organization described in section 501(c)(3) of the Code. ORG does not operate exclusively for section 501(c)(3) purposes, rather it has a substantial non-exempt purpose. ORG primary activity consists of providing debt negotiation and debt settlement services and such services are in furtherance of a substantial non-exempt purpose.

It is evident that ORG's stated activities on its application for exemption have materially changed since inception and the Service was never notified. ORG's Form 1023 stated that, "the organization was formed to promote and educate consumers, debtors and general public with respect to financial obligations and potential problems, which may occur from use of credit card financing and other debt." During the examination, the Service found the organization's purpose is to act as the servicing agent for debt negotiation and debt settlement programs.

The President/CEO of the organization has clearly indicated that the purpose of the organization was to conduct debt negotiation and debt settlement services. He stated such in meeting minutes dated September 23, 20XX when he discussed suitable business activities, such as debt management, debt negotiation, and debt settlement, for the corporation. In subsequent meeting minutes dated August 10, 20XX, he further expressed that with changes in the industry and comparable programs being conducted in for-profit organizations, ORG was looking into various new ideas, opportunities, and programs.

ORG is similar to the organization in *American Institute for Economic Research* that the court concluded had a significant non-exempt commercial purpose. In that case the organization sold periodicals and provided services to individuals relating to the purchase of securities. ORG is providing services to individuals relating to the settlement of their debts. Like the organization in *American Institute for Economic Research*, ORG is providing services to individuals for a fee. The manner in which ORG operates is indicative of a business, rather than an organization described in section 501(c)(3) of the Code because it does not provide any educational services.

In *Easter House* the court decided that the organization conducted adoption services for a business purpose rather than a charitable purpose. In reaching its decision, the court considered the manner in which the organization was operated. The following factors were established:

- The organization competed with other commercial organizations;
- Fees were the only source of revenue;
- The organization accumulated very substantial profits because of its fee structure;

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- The accumulated capital was substantially greater than amounts spent on charitable and educational activity; and
- The organization did not solicit and did not plan to solicit contributions

ORG is not like the organization in *Consumer Credit Counseling Service of Alabama, Inc.* The Consumer Credit Counseling Service of Alabama is an umbrella organization made up of numerous credit counseling agencies. In that case, the agencies:

- Provided information to the general public through the use of speakers, films, and publications on the subjects of budgeting, buying practices, and the sound use of consumer credit;
- Provided counseling on budgeting, and the appropriate use of consumer credit to debt-distressed individuals and families;
- Did not limit these services to low-income individuals and families, but they did provide such services free of charge;
- As an adjunct to the counseling function, they offered a debt management plan. Approximately 12 percent of a professional counselor's time was applied to the debt management plan as opposed to education; and
- Received the bulk of their support from government and private foundation grants, contributions, and assistance from labor agencies and the United Way. An incidental amount of their revenue was from service fees.

During the examination years ORG did not provide any documentation that showed that it conducted any educational or charitable activities. Furthermore, ORG did not establish that it conducted any credit counseling services. Whereas the organization in *Consumer Credit Counseling Service of Alabama, Inc.* offered debt management programs as an adjunct to its counseling function, ORG offers debt negotiation and debt settlement programs as a primary activity.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer ORG		Year/Period Ended June 30, 20XX and June 30, 20XX

Legend

ORG = Organization address Address = address City = city XX = Date
 Director 1 = 1st director Director 2 = 2nd director Director 3 = 3rd director
 Co-1 = 1st company CO-2 = 2nd company CO-2 = 3rd company

Additionally, ORG did not receive any support from government grants or the general public. It relies on support almost exclusively from the revenues derived from providing debt negotiation and debt settlement services.

As provided in *Better Business Bureau of Washington D.C., Inc.* the presence of a single non-exempt purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly exempt purposes. ORG debt settlement and debt negotiation services are substantial and commercial in nature, and as such, the services defeat its claim to be and organization described in section 501(c)(3) of the Code.

Taxpayer's Position

The taxpayer has not provided the agent with their position at this time.

Conclusion

It is the conclusion of the Service that ORG does not qualify for tax exempt status as a credit counseling organization described in section 501(c)(3) of the Code. ORG's primary activities are not in furtherance of section 501(c)(3) purposes. It has a substantial non-exempt purpose – providing debt negotiation and debt settlement services.

It is recommended that ORG's tax exempt status be revoked effective July 1, 20XX.