

Internal Revenue Service

Appeals Office
San Jose Appeals, MS-7100
55 S. Market St., Ste. 440
San Jose, CA 95113

Department of the Treasury

Taxpayer Identification Number:

Person to Contact:

Release Number: 201327017

Release Date: 7/5/2013

Date: April 12, 2013

Tax Period(s) Ended:

UIL:
501.03-30

Certified Mail

Dear

This is a final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(3).

The revocation of your exempt status was made for the following reason(s):

You are not organized and operated exclusively for exempt purposes enumerated in section 501(c)(3) of the Code. You are not organized exclusively for section 501(c)(3) purposes because your articles of incorporation do not limit your purposes to one or more exempt purposes and more generally do not meet the requirements of Treas. Reg. § 1.501(c)(3)-1(b)(1). You are not operated exclusively for section 501(c)(3) purposes because more than an insubstantial purpose of your organization is to foster social and recreational purposes of your members, despite a growing, but still incidental, exempt educational purpose.

Contributions to you are not deductible under section 170 of the Code.

You are required to file Federal income tax returns on Forms 1120 for the tax periods stated in the heading of this letter and for all tax years thereafter. File your return with the appropriate Internal Revenue Service Center per the instructions of the return. For further instructions, forms, and information please visit www.irs.gov.

If you were a private foundation as of the effective date of revocation, you are considered to be taxable private foundation until you terminate your private foundation status under section 507 of the Code. In addition to your income tax return, you must also continue to file Form 990-PF by the 15th Day of the fifth month after the end of your annual accounting period.

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

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date

this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules for filing petitions for declaratory judgment. To secure a petition form from the United States Tax Court, write to the United States Tax Court, 400 Second Street, N.W., Washington, D.C. 20217. See also Publication 892.

You also 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 matters that may not have been resolved through normal channels get prompt and proper handling. If you want Taxpayer Advocate assistance, please contact the Taxpayer Advocate for the IRS office that issued this letter. You may call toll-free, 1-877-777-4778, for the Taxpayer Advocate or visit www.irs.gov/advocate for more information.

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

Sincerely Yours,

Appeals Team Manager

Enclosure: Publication 892



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE
24000 Avila Road; MS 3000
Laguna Niguel, CA 92677-3405

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DATE March 11, 2011

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 propose to revoke our recognition of your exempt status as an organization described in section 501(c)(3) of the Internal Revenue Code (Code). We enclose our report of examination explaining why we are proposing this action.

If you accept our proposal, please sign and return the enclosed Form 6018, Consent to Proposed Action - Section 7428, unless you have already provided us a signed Form 6018. We will issue a final revocation letter determining you are not an organization described in section 501(c)(3). After the issuance of the final revocation letter we will publish an announcement that you have been deleted from the cumulative list of organizations contributions to which are deductible under section 170 of the Code. If you do not respond to this proposal, we will similarly issue a final revocation letter. Failing to respond to this proposal may adversely impact your legal standing to seek a declaratory judgment because you may be deemed to have failed to exhaust administrative remedies.

If you do not agree with our proposed revocation and wish to protest our proposed revocation to the Appeals Office of the Internal Revenue Service, then 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. This written request is called a protest. For your protest to be valid it needs to contain certain specific information which generally includes a statement of the facts, the applicable law, and arguments in support of your position. For the specific information needed for a valid protest, please refer to page 6

of the enclosed Publication 3498, *The Examination Process*, and page 2 of the enclosed Publication 892, *Exempt Organizations Appeal Procedures for Unagreed Issues*. These documents also explain how to appeal an IRS proposed action.

If you do submit a valid protest, then 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 and Publication 892 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. Please note that Fast Tract Mediation Services referred to in Publication 3498, generally do not apply after issuance of this letter.

You may also request that we refer this matter for Technical Advice as explained in Publication 892 and an annual revenue procedure. Please contact the individual identified on the first page of this letter if you are considering requesting Technical Advice. If we issue a determination letter to you based on a Technical Advice Memorandum issued by the EO Rulings and Agreements function, then no further administrative appeal will be available to you within the IRS on the matter.

If you agreed with the proposed revocation or if you receive a final revocation letter, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 30 days of the date you agreed with the revocation or the date of your final revocation letter, whichever is sooner, unless a request for extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

We will notify the appropriate state officials of the revocation in accordance with section 6104(c) of the Code. Currently, only certain states are eligible to receive notification of proposed revocation actions. You can call the person at the heading of this letter to find out if your State is eligible to receive a notice of revocation of your tax-exempt status.

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,

Nanette M. Downing
Director, EO Examinations

Enclosures:
Publication 892
Publication 3498
Form 6018
Report of Examination

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

LEGEND

ORG - Organization name XX - Date City - city State - state
 Event - event website - website President - president Vice-President
 vice president Secretary - secretary POA - POA Country - country
 Chairman - chairman TOUR-1 through TOUR-11 - 1st through 11th TOUR RA-1
 through RA-12 - 1st through 12th RA CO-1 through CO-29 - 1st through 29th
 COMPANIES

ISSUES

Whether ORG is organized and operated exclusively for exempt purposes within the meaning of *Internal Revenue Code (IRC) § 501(c)(3)* and the Regulations. Whether ORG qualifies for exemption under *IRC § 501(c)(3)*.

FACTS

Organizational Information

ORG (hereafter referred to as "ORG" or "ORG") was incorporated in early 19XX's. ORG filed the Articles of Incorporation with the State of the State of State in the name of "The ORG" on December 27, 19XX. The Articles state, inter alia, that the purposes for which this corporation was formed are:

"To assist in the preservation and maintenance of motor vehicle of historical value, to obtain and maintain records of automotive industry; to stimulate interest in the collection of, and preserve information relative to, veterans cars as set forth in books, catalogs, pamphlets, and any and all other source material related thereto; to promote interest in the collection of automobile accessories and particularly those manufactured for motor vehicles in early days; and generally to provide facilities for the exchange of information among its members concerning any of the forgoing objectives.

To conduct an educational program, and/or programs, edit magazines, booklets and pamphlets, which will assist in the accomplishment of its purposes or for the stimulation of interest in its purposes among its members and other persons....."

ORG filed the Certificate of Amendment of Articles of Incorporation with the State of State on May 10, 19XX. The Articles amended to change ORG's name to "The ORG".

Section 1 of Article II of ORG's Bylaws, last revised on June 22, 20XX, provides:

"that the general purpose of this club, incorporated as non-profit corporation, shall be to preserve and maintain motor vehicles of ancient age and historical value and to serve as an accurate and technical source of information concerning ancient automobiles for the benefit of its members, as well as for the general public."

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

ORG had previously been recognized as an organization described under IRC § 501(c)(7) before ORG applied for the exemption under IRC §501(c)(3). ORG also described its operational activities in the Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code as follows:

"The general purpose of this club, incorporated as non-profit corporation, shall be to preserve and maintain motor vehicles of ancient age and historical value and to serve as an accurate and technical source of information concerning ancient automobiles for the benefit of its members, as well as for the general public.

ORG serves as a living museum by restoring, maintaining, displaying, and passing on to the future generations thousands of examples of our automotive heritage. Each year ORG conducts tours in every area of the country displaying ORGs on the road, at schools, in shopping centers, and in parking lots. The public is always invited to observe, ask questions, and educate themselves about the earliest period of automotive design and manufacture."

ORG received the favorable determination and was recognized as an organization described under IRC § 501(c)(3) on May 22, 20XX.

Operational Information

On June 19, 20XX, the Service began the examination of the Form 990, *Return of Organization Exempt from Income Tax*, filed for the year ending September 30, 20XX. The examination included the review of the relative books and records and the interview of the responsible officers of ORG.

ORG reported the following revenue and expenses per books:

REVENUE:

- Contributions, Gifts and Grants - (line 1):
- Membership dues and assessments - (line 3)
- Interest on savings & temp. investment - (line 4)
- Gross Sales of Inventory - (line10a)
- Cost of good sold - (line10b) *
- Other revenue - (line11) **

TOTAL REVENUE:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

EXPENSES

- Accounting fees - (line 31)
- Supplies - (line 33)
- Telephone - (line 34)
- Postage and shipping - (line 35)
- Printing and publications - (line 38)
- Travel - (line 39)
- Interest - (line 41)
- Other expenses - (line 43)
 - Awards
 - Bank charges & merchant fees
 - Computer services
 - Election & ballot tabulation
 - Equipment rental
 - Executive Secretary
 - CO-1 Editor
 - Income taxes
 - insurance
 - IRC 501(c)(3) expenses
 - Membership programs
 - Office expenses
 - Other national expenses
 - State filing fees
 - Web page

TOTAL EXPENSES: _____

* Cost of printing and mailing services for CO-1 was included in as a part of COGS.

** Other revenue was not indicated in General Ledger.

The examination began as a correspondence examination. As part of that examination, an initial Information Document Request (IDR) was issued to request documentation for the purpose of determining whether the organization operated in accordance with requirements set forth under *IRC 501§ (c)(3)*. In response to the IDR #1, the organization provided the following documentation.

- Articles of Incorporation
- Amendment to Articles of Incorporation
- Board minutes of years of 20XX, 20XX and 20XX
- CO-1 publications issued in 20XX (Vol. 69, No. 1-6) and in 20XX (Vol. 71, No. 1-2)
- *Adventure of a Lifetime* (ORG pamphlets introducing its membership)
- A blank application form for ORG Membership
- A blank ORG Membership Renewal form

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

- Electronic CO-2 statements with transactions from 9/2/20XX to 10/2/20XX
- Electronic CO-2 statements with transactions from 9/16/20XX to 10/16/20XX
- ORG Statement of Cash Flows for the period from October 20XX through September 20XX
- ORG Profit & Loss Detail for the period from October 20XX through September 20XX

Along with the above documents, in response to our inquiry whether there was difference between the current operations of ORG as an organization exempt under *IRC § 501(c)(3)* and the past operations as a social club exempt under *IRC § 501(c)(7)*, ORG responded as follows:

"Our organization is much more than a social club. Club members are dedicated to preserving history, educating anyone expressing an interest at any kind of event – and providing a publication that included education and technical articles.

Just this summer, in commemoration of the 19th tour of women driver, RA-1, was a tour across the country by RA-2, daughter of Club member RA-3. There were many stops along the way with the public to share and explain the history of the event. (see included CO-1 Vol71, No.2.)

Also, club member RA-4 is spearheading a project to provide each CO-3 with a CD/video for an educational program to spread information and history about brass era cars and related subjects.

Club long range planning including two enclosed trailers featuring a car (provided by the CO-3 using the trailer) with displays, video, and photographs to be taken to schools, car shows and any related gathering where the information could be shared."

In response to our request whether the organization incurred costs to preserve and maintain motor vehicles and how ORG disseminated information to the general public as "an accurate source of technical and historic information," ORG responded as follows:

"ORG doesn't maintain vehicles. The members are dedicated to maintaining and preserving their own vehicles. Members speak on the hobby whenever possible. 'CO-1s' are donated to various schools and libraries."

There is a trailer listed as one of the assets on ORG's balance sheet. ORG stated that the trailer would be used in ORG's activities held in schools, car shows, and any related gatherings. We requested information to determine whether or not ORG had implemented the activities as described. The response of ORG is copied and/or stated verbatim as follows:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

"Included are several documents (7b) describing the exciting project of the School Education Unit. Although the activity has not yet been implemented, it is very much alive and ongoing. The economic downturn in the recent past few years has been taken its toll on the volunteer time and donations but not the project enthusiasm. This will be implemented and is still ongoing... The ORG does not own a library or museum..."

The IDR #2 was issued to request the outstanding items listed on IDR #1. In response to IDR #2, on December 18, 20XX, ORG provided the following documents:

- By-Laws
- Officer's Director's Procedure Handbook
- Printout of CO-4 website homepage
- ORG information
- Written contract between ORG and the Editor for CO-1
- General Ledger for the tax year ending September 30, 20XX
- Documentation related to the project of ORG School Education Unit including:
 - Scripts of educational CD/video
 - CO-3's Presentation Outline
 - Teacher's Presentation Outline
 - Historical facts from the Early Years of the Automobile

ORG's Constituencies

ORG's By-Laws explain the various constituencies in regard to ORG's operations as follows:

- *Individual Members - the privilege of membership shall include the following:*
 - a. *One subscription to the CO-1 per membership (six issues per year)*
 - b. *One membership certificate for both husband and wife*
 - c. *Membership cards having the same number for both husband and wife. None issued to children*
 - d. *The right to vote in ORG elections, or to hold office, is restricted to members owning a 19 year model or older vehicle or a vehicle manufactured prior to January 1, 19XX.*
 - e. *Members are entitled to one free classified ad of 50 words or less in each CO-1 provided it is not a commercial nature.*
 - f. *Mailing of additional pertinent information, one per membership.*
 - g. *Participation in the ORG Convention, tours, and events.*

In addition to the Individual Membership, there are Life Membership and Honorary Membership. All past president of the ORG shall become life members. Any

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

member who commended himself to club esteem may be elected a life member or an honorary member by unanimous vote of the board of directors.

- **CO-3s**

The Board of Directors of ORG determined the territorial limits of each CO-3. Granting of a charter would be considered for each prospective CO-3 meeting all requirements and obligations; provided, however, that by the acceptance of such charter, the CO-3 agrees to be bound by the charter and by-laws of ORG, now in force or hereafter, from time to time, adopted.

A chartered CO-3 shall use only the name designated in its charter. The new CO-3 name shall be the city in which the headquarters to be located after the CO-3 charter is granted. In case of rural or sparsely populated areas, an area name may be adopted with an approval of the Board of Directors. The name of the new group shall be "The (city) CO-3" or "The (area) CO-3 of the ORG."

The minimum number of charter members of a prospective CO-3 shall be determined by the ORG Board of Directors on a basis of the size and conditions of the community in which the CO-3 is to be built. The charter membership shall not fewer than five (5) members of ORG owning pre-19XX motor vehicles.

Application for the formation of a CO-3 shall be made to the Board of Directors of ORG in the form of a petition which shall be duly signed by at least five (5) persons who are voting members of ORG.

A CO-3, after receiving its charter, may incorporate subject to the approval of the ORG board of directors and said CO-3 shall agree, as pre-requisite to incorporation, that it will, as an incorporation body, abide by the constitution and by-laws of the ORG then in force or thereafter from time to time adopted.

- **Affiliated Registers**

The Board of Directors of ORG may recognize organizations composed of ORG's members in good standing based upon their mutual interest in designated, generic categories of pioneer vehicles and/or automobillia. Such organizations will be known as affiliated registers. Affiliated registers will be independent from CO-3s of ORG. Because of a difference in nature and purpose, an affiliated register will not be a substitute for, be subordinate to, or take precedence over CO-3s in any organizational concern of ORG.

The purpose of an affiliated register is to promote the preservation, restoration, operation and lure of specific categories of vehicles and/or automobillia and to promote participation by members and their families in these and other Club's

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

activities. Such purpose may be achieved by periodical publications, registers of vehicles and owners, sponsorship of events, and meeting of the membership. The activities of affiliated registers must be supplemental to, and compatible with, those of ORG.

- **Officers and Chairman of committees**

ORG has the following officers and chairmen elected or appointed to maintain its operations: Chairman of the Board, President, Vice President, Secretary, Treasurer, Budget and Finance Chairman, Executive Secretary, Activities Chairman, Finance and Investment Chairman, Internet/Website Chairman, Chairman of Long Term Planning, Nominations Chairman, and Publications Chairman. Their responsibilities and authorities are listed as follows:

- a. The Chairman of the Board is particularly honorary, elected along with rest of the Officers, and is usually conferred upon the outgoing President.
- b. President is responsible for the overall operations of ORG. He has the authority to take all actions appropriate to assure Club health and welfare with constraints of Club By-Laws.
- c. Vice President has the authority and responsibility to perform the duties and the President in absence or disability of the President.
- d. Secretary is expected to record the deliberations of the Board Meetings, Annual Member Meetings and Special Meetings. Verify the elections of National Directors and Board Officers.
- e. Treasurer examines all financial transactions of ORG and reports on these at each regular meeting of the Board of Directors.
- f. Executive Secretary is a contracted individual, engaged by the Board of Directors to be the official representative of ORG, who shall faithfully enhance the organization's image.

- **Chairman of committees**

- a. The Activities Chairman is the coordinator for ORG's National Tours and is responsible for liaison with those CO-3 or Affiliated Registers hosting such tours. The Activities Chairman is also the coordinator for other activities such as ORG Tent at the annual EVENT. [Emphasis added.]
- b. The Finance and Investment Chairman is responsible for oversight of annual budgets, for the placement, and disbursement from any long or short term investment and stewardship of Club finances. The Finance and Investment Chairman will chair a Finance and Investment Committee whose members are appointed by the President. The Finance and Investment Chairman will establish an effective system for the following activities on a periodic schedule:
 - Review the annual budget,
 - Review ORG's investment portfolio,

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

- Make recommendations for any investment modifications,
 - Closely monitor any funds that are considered endowed or quasi-endowed funds,
 - Review income from any investment to determine whether to reinvest or apply to budgeted items, and
 - Review fundraising projection from the Ways and Means Committee.
- c. The Internet/Website Chairman is responsible for the Internet and web site presence of ORG. The Chairman has the authority to ensure that material appearing on the Internet and website properly represents ORG's objectives and member interests. The Internet/Website Chairman will chair an Internet/Website Committee whose function is to review and approve Internet/web site content as needed.
- d. The Webmaster is a standing member of this Committee. The Webmaster will prepare and submit a monthly report to Board members which includes: number of public visits, Club merchandise sold, Club memberships received and renewals received.
- e. The Chairman of Long Term Planning will be responsible for the development and maintenance of ORG's long range plan. The long range plan will include the following basic subjects:
- Objective: Develop five and ten year basic objectives for ORG. Specify what ORG can reasonably achieve.
 - Strategy: Develop strategies to achieve the above objectives and lay out time phased in the following areas:
 - Club structure and governance (Board structure, Officers, Chairmen, Executives, Club Office, etc.)
 - Club CO-3s & Registers (Scope, requirements, governance, locations, etc.)
 - Club ancillary functions (Museum, Library, etc.)
 - Club operations (meetings, tours, publications, educational programs, etc.)
 - Club policies covering operations of National tours, CO-3 Tours, Insurance, Safety, Education, Merchandising, Museum, Library (if established), Membership and voting (Club size, membership promotion, voting criteria), Finance, Investment and Endowment Plan, Project Expenditures and Income (cash flow), Spreadsheet projecting five and ten year development annually, Methods for maintaining and benefiting from 501(c)(3) status.
- f. The Nominations Chairman is responsible for selecting qualified nominees to serve on the ORG Board of Directors.
- g. The Publications Chairman is responsible for the CO-1 and Roster publication of ORG. He/She has the authority to ensure these publications

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer ORG		Year/Period Ended 09/30/20XX

properly represent the ORG objectives and member interests. The Publications Chairman will maintain surveillance over the CO-1 subscriber list and make recommendations to the Board from time to time to ensure the CO-1 is being received by all entitled members as determined by the Board and in areas that best enhance public image and awareness of the ORG.

ORG National Tour and EVENT

The ORG Officer's & Director's Procedure Handbook (formerly known as Redbook) provides regarding the National Tours and the EVENT event, which are the two major activities of the organization, they are copied and/or stated verbatim as follows --

National Tours

It is desirable to have a minimum of five "big car" tours and two 1-2 Cylinder National ORG tours annually. One of these "big car" tours is typically held in conjunction with the Annual Members (Convention) Meeting. In cooperation with CO-3s Chairman, CO-3s, and Affiliated Registers should be encouraged to sponsor National Tours. ORG adopted the following National Touring Policy:

1. A CO-3 or independent Tour Committee sponsored by a CO-3 wishing to host a National Tour should present a proposal to the ORG Activities Chairman approximately one year, or earlier, than the proposed tour dates.
2. When a CO-3, Affiliated Register or independent Tour Committee's tour is accepted, advance publicity should be started through CO-3 newsletters and the CO-1.
3. The National ORG offers the following for the tour:
 - a. The Activities Chairman will, if requested, provide assistance for tour planning and operation.
 - b. Publicity in the CO-1 and ORG Website. National Tours are entitled to two (2) full pages of display advertising in the CO-1. The ORG Webmaster will post the tour date and location information on the Website as soon as it is received. A display advertisement, linked to the coming event listing, will be posted on the ORG Website from time to time it is received until the date of the tour.
 - c. Upon written request to the Activities Chairman, the National Office will advance to the Tour Committee up to \$ for tour deposits etc., which shall be refundable.
 - d. The ORG provides limited Tour insurance covering the ORG, the sponsoring CO-3 or Affiliated Register and the Tour Committee against certain liability.
4. The National Board encourages owners to maintain a high standard of historical accurate vehicles at all times. The following requirements apply to all National Tours.
 - a. Touring is limited to vehicles manufactured prior to January 1, 19XX. Through the years vehicles may have had components replaced due to

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

- normal wear and tear. Replacement components are to be as close to original configurations as reasonable.
- b. To be eligible for touring, at least five (5) of the major components of a vehicle must be original, restored, an accurate reproduction of the original, or is correct for the era: 1) engine or motor, 2) rear axle, 3) front axle, 4) transmission, 5) body, 6) frame. A vehicle that is completely new reproduction, or in which only a few minor original pre-19XX parts are used is not eligible for National Tours.
 - c. Upon request of the Tour Chairman, Activities Chairman or his/her designee, a vehicle owner must be prepared to certify his or her vehicle did begin life prior to January 1, 19XX and be able to identify original major components.
 - d. Restored vehicles should have a good exterior appearance. Well preserved, unrestored vehicles are specifically encouraged to tour, should be complete, and have an acceptable appearance. Vehicle having radical or obvious mechanical/structure deviations that depart from original configuration standards of the period are not eligible to tour. Non-obvious mechanical changes made for safety are acceptable. It is the responsibility of Tour Chairman, CO-3 or Affiliated Register hosting the tour to assure participants are knowledgeable of these policy requirements.
 - e. Vehicles acceptable for touring are defined in paragraphs a and b above. An unacceptable registered vehicle or unacceptable substitute vehicle, as determined by the Tour Chairman, will not be allowed to tour.
 - f. All vehicles must be in safe operating condition and meet requirements of Standing Rules, Section 4 I. The responsibility for determining this condition lies with the owner of the vehicle.
 - g. Vehicle owner must carry liability insurance on is or her tour vehicle. Tour registration forms must have a place for the owner to enter the name of the insurance carrier, policy number and expiration date, and to certify that information is correct.
 - h. Due to the historical nature of our cars and activities, period dress should be encouraged on all National Tours and activities.
 - i. There will be no commercial advertising allowed on vehicles.
 - j. All register drivers and passengers of cars driven on a Tour must be current members of ORG per Standing Rules, Sections 4 B. Drivers must hold a current, valid driver's license.
 - k. National Tours should be self-sufficient, requiring careful planning on the part of the Tour Committee. It is advisable to get firm prices in writing from all vendors (hotel/motel, food, and entertainment). Lodging and meal costs may be included in the tour registration fees at the discretion of the hosting group.
5. For all National Tours, each tour committee shall collect a fee of \$ per registration. This fee, along with a list of tour participants, will be sent to the ORG office immediately after the tour. Please note that the fee is not per

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

person, but is applied to each car registration and to each registration of passenger who come without a car. The \$ may be included in the registration fee.

History and Importance of the EVENT

The presence of the ORG EVENT originated in 19XX. In October 19XX it was proposed and accepted by the ORG Board that the EVENT becomes an official, annual ORG activity.

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Of all ORG activities, the EVENT has the greatest potential for attracting new members. EVENT draws thousands of brass-era auto enthusiasts who are members of other "vintage" automobile clubs or who are not affiliated with any club. These individuals are excellent candidates for ORG membership. The EVENT is a potential point of contact with these hobbyists where they can learn about ORG history and traditions, talk with members, find out about CO-3s, and Tours. The entire world of auto enthusiasts walks by the ORG EVENT each year; this is truly our best opportunity for encourage ORG membership.

The EVENT is an important contact with our existing membership. For many, the Tent is their only opportunity to meet Board Members and National ORG representatives. It puts the National Club office literally in the field where members can transact business with ORG on a first-hand basis. For members not affiliated with CO-3s, the EVENT make tangible the existence of a Club they otherwise know only through their mail box. The hospitality volunteers at the Tent consistently remark about the enthusiasm and gratitude of such members upon finding their Club "home" at EVENT.

In addition, the Tent serves an important function as gathering place for members, a meeting point and a place to "stash" swap meet purchases, not to mention the "private" (and clean) rest room facilities. For many, the Tent is a place to rest, relax, socialized, and in some cases, get out of rain!

On October 19, 20XX, the face-to-face meeting held at the IRS office in City, State was conducted between the Agent, the Executive Secretary of ORG, Secretary, and the Power of Attorney, [] POA. The meeting was held to allow the Agent to further understand ORG's activities and to determine whether the education provided as part of ORG's activities are recognized as educational methods defines in Section 1.501(c)(3)-1(d)(3) of the Income Tax Regulations. The following documents were presented during the meeting:

- An email dated on October 17, 20XX written by Chairman, Chairman of ORG Educational Committee, regarding Report of Educational Committee (EC) Plan

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

- An email dated on October 18, 20XX written by RA-5 regarding an update on the educational video.
- An article published by CO-5 in the title of "Antique auto lovers: These cars have the brass"
- 501-c-3 Report Supplement Regarding "CO-6" Evidence written by RA-6, 501-c-3 Committee Member
- An article dated on June 24, 20XX published by CO-7 in the title of "History on wheels"
- ORG, Antique Automobile Presentation by Chairman, edited by RA-7 and RA-4, ORG Public Education Committee
- Questionnaires of "What Do You Know About ORG"
- POA stated that ORG has not completed the educational DVD since there was not enough funding to complete the publication of DVD

During the meeting, noted above, it was determined that the additional information was needed to enable the Agent to determine whether the activities of ORG would qualify as educational, for which IDR #4 was issued.

On November 16, 20XX in response to Item 6a on the IDR #4 regarding question about whether ORG had forgone the project producing the DVD because lack of funding, ORG provided the following documents:

- The article printed on October 25 published on website web site about the concept of CO-6
- CO-8 printed on October 26, 20XX published on CO-8 web site about the visit to CO-9
- The email dated October 27, 20XX written by RA-7 about a newspaper coverage of ORG recent visit to City, State
- The email dated on October 27, 20XX written by RA-8, Member in Public Educational Committee to report the updates of video and power point programs and the written outline of ORG Educational AV Program
- The letter from CO-10 to ORG to confirm the outline, schedule, and details for the ORG video/Power Point portion of education program per their meeting on October 27, 20XX
- The email dated November 14, 20XX written by RA-8 to report the educational program video shooting is complete.

Because ORG provided a copy of presentation outline for school visits conducted by ORG CO-3s, we requested information of the school visits to understand ORG's role in these activities. Specific date, location, and information related to school visits were also requested. ORG responded to our request with the statement as follows:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

"Reporting back to the ORG office/board regarding display of its antique automobiles toward education of the public has been less formal that is being requested by this auditor. Every single time a car and owner are in the view of the public, it is a chance for education. Every tour, every parade, every visit to a school, every car show are all splendid opportunities for the public to learn history, mechanical engineering, fashion history, and the history of industrial revolution. All the innumerable opportunities would be impossible to document.

The passion and dedication of ORG members to preserve and promote the history of the automobile cannot be trivialized or doubted. It is just difficult to quantify and document."

ORG also provided the following documents:

- The article dated May 29, 20XX with photographs which reported CO-3 (CO-3) ORG took 5 cars to CO-9 to aid in their course study and give each of the kids a ride around the playground
- The photograph took on October 16, 20XX which showed a ORG member giving an informal "lecture" to visitors to the parking lot where cars were gathered on a tour. A statement remarked on the photo: ***"This happens all the time."***
- A CD in the title of ***"Evolution of the Automobile and Its Effects on Our Society."***
- Document with photographs, made by ORG member (current Vice President, Vice-President), shows a cutaway display of a transmissions and how it works
- A story from a CO-3 about a visit to CO-11
- A proclamation of ORG America Day from the City, State
- The excerpt of minutes of Board of Directors meeting held on October 6, 20XX with a discussion about the educational video
- A plan of CO-12 in February 20XX

Educational CD or DVD and School Visits

As a part of the response to our IDR #1, ORG provided the educational CD/video project including *Historical Facts from the Early Years of the Automobile*, *CO-3's Presentation Outline*, *Teacher's Presentation Outline*, and a copy of scripts for the educational CD/video that is to be disbursed to ORG CO-3s. We requested a copy of the CD/video if it had been completed. ORG responded to our request for the CD/video as follows:

The educational CD/video is currently a work-in-progress. I have included the script (6). This is definitely an ongoing active project. The gentlemen organizing and executing the project are working around the children's school schedule. They are very excited about the project and actively making it happen.

The DVD of *Evolution of the Automobile and Its Effects on Our Society* provided facts in depth with many edited historical photos, films and diagrams in regard to the early

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

development of automobile industry. In this one hour and forty two minutes long program, the film briefed three types of engines used by historical vehicles: steam, electrical and gasoline engine. Several ORGs were displayed in the film to demonstrate the design, parts, and their mechanisms: engines, heaters, and tires etc. The development was discussed from origin, becoming commercial, as well as mass production. The DVD contains 54 scenes with many topics in details.

The copy right is registered and reserved by RA-9, an individual member of the ORG. This DVD was neither owned by ORG nor distributed to schools or community service groups.

On December 6, 20XX, ORG provided its educational DVD completed in December 20XX. The DVD was filmed in the museum and the restoration shop owned by RA-10 and his wife RA-11, ORG's members. RA-12, the host and the narrator of the video program, brought five children of ages 8 to 13 touring the couple's museum, showing, explaining, and experiencing the following topics. There are three central topics covered in this fifteen minutes production. They are:

- The early development of the automobile
- The impact of the automobile upon society
- The ORG's pursuit to make this revolution come alive today

The scripts of the third topic are copied and/or stated verbatim as follows:

"The ORG has 4,500 members in the US, Country and throughout the world. Its focus is upon touring with these vintage cars to use them as they were originally intended and to demonstrate them to the public. Unlike most car clubs, the ORG specializes in this 19__ to 19__ era, the era when the _____ became the ORG. These cars have been, and are being, restored by ORG members, many from rusted derelicts, to what once their glory days. The cars are not just maintained for the owners pleasure, they are driven hundreds of miles every year, bringing the heritage of the automobile to cities, towns and villages across the country. One to three day Regional Tours are held by ORG CO-3 and National Tours are held bringing as many as 100 or more cars together in various areas of the country for week-long tours. A 200 car tour was held in 19__ to celebrate the _____ anniversary of automobile manufacture in the United States. These vintage cars are demonstrated and rides given to interested adults and children. At night 'gaslight' tours, often for hundreds of spectators, using these car's primitive kerosene lamps, acetylene gas headlights and primitive electric lamps on few of the later cars are used to light the way. Also, to set the scene for this period, many tours feature vintage clothing worn by the drivers and passengers to display the clothing of the era and enhance the experience of seeing the cars in their original setting."

Form 886A	Department of the Treasury - Internal Revenue Service	Form 990 Examination
Explanation of Items		
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

This ORG educational program will be used for presentation in schools across the country. The formal plan for school site visits had not been implemented until the DVD completed in December 20XX.

In review of the documents that ORG has provided as well as the ORG's website, we found that ORG has many CO-3s listed on its website. We requested the information of the CO-3s to understand how ORG maintained control over these CO-3s, what types of reports were these CO-3s required to submit to ORG, whether these CO-3s had their own tax exemption, or whether they operated under ORG. ORG responded to our request as follows:

"The CO-3s are guided by the CO-3 Committee (as listed in the CO-1). The rules are the same as the national club. The CO-3s are not (as far as I know so far) required to submit reports. They are asked to update the Office with new officers, liaisons, activities etc. The CO-3s have their own tax exemptions."

ORG used the school visit to CO-9 in 20XX by CO-3 (CO-3) of ORG as an education event. In response to our request for information whether CO-3 made other tours in addition to the one provided at CO-9 and whether other ORG CO-3 had run such school tours, ORG responded as follows:

"The visit to CO-9 has been an annual event for roughly the past 10 years. The visit usually occurs in the month of May because they coincide with a unit the school teaches on the industrial Revolution..."

"ORG CO-3s have made visits to schools, nursing homes, CO-13 and other non-profit groups, local city parades, and city events throughout the United States. ORG did not realize the importance of having members reports back to the organization with their visits..."

Along with the above response, ORG provided the Agent the acknowledge and thank you letters from CO-14 addressed to Chairman, an individual ORG member, for his presentation of early automobiles to seventh grade students in a history class on April 24, 20XX.

ORG Bi-Monthly Magazine (CO-1) and Website

ORG primarily relied on its bi-monthly magazines (CO-1) and its official web site to maintain its publicity and to reach its worldwide members. The magazines promoted ORG's upcoming events, issued announcements of ORG's officers, listed letters from members, shared members' experience on the tours or swap meets, printed photos of antique vehicles on the tours or swap meets, advertised cars or parts wanted or for sale,

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

published articles about stylish dresses for drivers and passengers, and displayed contact information of ORG committees and CO-3s.

One subscription to the CO-1 (six issues per year) is included as a part of membership privilege. Each issue is sold \$.

ORG maintains its official web site at www.ORG.org. There are seven subpages of the site as follows:

- Home Page - this is where web page starts. It displays animation of members' antique vehicles and show announcements. Discussion forum is also available here.
- ORG Page - purpose of the ORG is listed here. Several links on the top of the page lead users to information of "Board of Directors", "CO-3s", "Affiliated Registers", "Members in Action", "Tours Highlights", and contact information of ORG. A link of "How to Join" leads users to apply for or renew their membership or print out forms for membership.
- Calendar Page - the upcoming events of ORG are published here, including ORG National tours, National Swap Meets, and non-club events.
- Club Store Page - ORG exhibits items with ORG logo for sale, such as caps, shirts, jackets, and dusters.
- Classified Ads Page - ORG offers this space for advertisements. There is a fee for deluxe text and picture ad. Short text ad is free.
- Tech Articles Page - where owners of or authors about antique vehicle share their articles or tips to maintain antique cars.
- Outreach Page - where the links of Discussion Boards, CO-1, CO-1 Index, and Brass Era are available to users.

ORG also earned revenue from advertisements on the magazines and web site. The revenue was not reported on its Form 990-T.

During the face-to-face meeting held on October 29, 20XX, the Agent asked the Executive Secretary and the POA to provide and present documentation regarding the tour activities, which had also been requested in previous IDRs. The Secretary and the POA provided some articles that were written about ORG; however, they acknowledged that they did not keep records as they should. Since ORG did not provide documentation that would indicate the specific details of the tours, a review of ORG's the historical web page at website for the year ending September 20XX was conducted. We found and noted, through the review of the articles, written and listed in the website, the following details of the events:

Name of Tour	Dates of Tour	Location Where Tour Began
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Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

TOUR-1	September 13-16, 20XX	City, State
TOUR-2	September 29 - October 1, 20XX	City, State
TOUR-3	February 19 to 22, 20XX	City, State
TOUR-4	April 12 to 14, 20XX	City, State
TOUR-4	May 1 - 4, 20XX	City, State
TOUR-5	May 17 - 19, 20XX	City, State
TOUR-6	May 20 - 23, 20XX	City, State
TOUR-7	May 20 through May 24, 20XX	City, State
TOUR-8	August 20-24, 20XX	City
TOUR-9	August 23 -27, 20XX	City, State
TOUR-10	August 31 - September 2, 20XX	City, State

To further determine whether each specific event was conducted for the exempt purpose of IRC 501§ (c)(3), the following information was obtained from ORG's the official website for the first four tours conducted in the year ending September 30 20XX:

- TOUR-1 Highlights

"...Approximately 30 various makes of pre-19XX automobiles, many with back seat passengers, gathered on Wednesday afternoon at the headquarters, CO-15 in City, to receive well organized and stocked goodie bags and registration materials. Included was cat litter for oil drops and pools of oil, great personalized "Save Your Spot" markers for each car, and other sundry items... After returning from the short tour, a most succulent Bar BQ tri-tip was served with all of the trimmings.... We had lunch at CO-16; very cool here at 8000 ft. elevation.... We had a scheduled stop at CO-17 in City and had lunch at the CO-18. We topped off the evening with a multi-entree banquet including prime rib, awards and fellowship. Saturday, we had a short, 60 mile day through CO-19. It included shopping at leisure, and wine tasting for those who wanted that. We had lunch a CO-20.... This was a tour made up of friends, nurturing the social and fellowship aspect of the ORG that we care so much about.... The food everywhere was extraordinary and everything was well organized. Special thanks to"

- TOUR-2

Form 886A	Department of the Treasury - Internal Revenue Service	Form 990 Examination
Explanation of Items		Year/Period Ended
Name of Taxpayer		09/30/20XX
ORG		

"Adventure, education, smiles and laughter were shared by the twenty-six antique car enthusiasts participating in the TOUR-11 hosted by the CO-3 Leaving City, we drove through some stunning rolling-hill back roads, oak woodlands, vineyards and horse properties to reach River Road on the levee along the River. We passed through the historic Chinese town of City, ate a picnic lunch in a Park park and arrived at our hotel destination in the picturesque town of Isleton. Our cars had 5-star accommodations in a private, fenced and Cityd compound, overlooking the river. Later in the afternoon we boarded the CO-21, at the private dock where our cars were parked and had a leisurely, informative tour on the river....After returning from this excellent river cruise we enjoyed a happy hour on our car host's patio area watching activity in and on the river, including a sea lion and barges carrying supplies for levee repairs...This day was packed with some interesting stops and fun tours. We spent several hours at the CO-22 where we rode historic streetcars and interurban electric trains. ... We rode the trolleys, viewed and climbed on many of the over 50 historic cars on display, and had a picnic lunch....Tying together nicely with the wetlands project was a tour of the CO-23 of City, State...With about an hour or so until dinner, many of us strolled the streets of City, visited the harbor area where there is a plaque commemorating the 1985 visit of Humphrey the Humpback Whale, and finally ended up shoulder to shoulder at the bar in CO-24 where we were scheduled to have dinner. This bar/restaurant was established in 1931 and houses one of the world's most remarkable collections of wild game trophies, including the heads of more than 300 wild animals, birds and fish from every part of the globe. It is quite a showplace and features the best in food and good drink.This was an extremely scenic drive through natural river habitats where we could spot Blue Heron and a variety of cranes. ...Drivers had to concentrate on the narrow levee roads, while passengers could ooh and aah over the fantastic sights...We stopped at CO-25 for wine tasting and a refreshment stop where we set out leftover apples, homemade cookies, and sodas. It was a great break to reminisce on a fun tour and say goodbye to four of the couples who went directly home from there...."

- TOUR-3

"...Most people arrived on late Sunday or Monday morning. Tour and Convention Headquarters was the Town and Country Hotel and Convention Center. Ample trailer parking was provided at the rear of the hotel. Rooms were colorful and comfortable, grounds were planted with flowers. The first significant event was the National Board meeting on Monday afternoon to close the 20XX year's business and then call a new meeting to seat the newly elected board members and elect new officers....Monday night included a reception with authentic Mariachi music and opening dinner...On Tuesday morning the tour started with cool temperatures and a relaxing drive up the coast in our ORGs. Those without early cars rode with others who had an open seat. The tourists visited Park, a memorial to men and

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

women who served the United States of America in time of war....Today's tour included two private automobile collections....Lunch was served along the blue Pacific overlooking the beach along with the sea gulls ...A CO-3s meeting was held in the late afternoon, where representatives could announce upcoming events. Many enjoyed the hospitality suite, visited with new and old friends or took naps to recuperate for dinner.

On Wednesday, automobilists left the hotel for a drive along Bay continuing to the harbor area. As a group, the tourists boarded the CO-26 for a walking and audio tour of the ship...A box lunch was served on board to all participants in an eating area overlooking the harbor. The afternoon drive included the City area to Park....the tourists visited the Co-27... With the threat of rain, on Thursday morning it was time for a ride to Historic Park and to visit the City Auto Museum....While at the City Automotive Museum, participants were treated to a great lunch in the museum display area as it was closed to the public for the few hours while ORG was there. Some of the tourists went on to Island by way of the City Bridge if they were not intimidated by the threat of rain....The final banquet was held on Thursday night in the Pacific Ballroom along with great food and awards. ...Friday, the tour and convention were officially over but the annual Swap Meet started on Friday and was only a three-stop trolley ride from the hotel. The trolley stopped in the middle of the swap meet. Very convenient! ...A great convention, a well managed tour around major traffic and a good time was had by all."

TOUR

"...The event opened with a National Board meeting headed by our new president, President, on Wednesday, April 11th. The festivities culminated on Sunday, April 15th, with a filet mignon barbeque dinner at the fairgrounds Swap Meet. On Thursday morning, 167 tour participants met at CO-28 for coffee, donuts, and various tours. ...This large car tour went to City in the local Mountains, covering about 90 miles round trip, and reaching a 4,000 ft. elevation. The weather was challenging, drumming up a severe crosswind followed by snow. Our destination, Glenville, seemed to be only a restaurant and a couple of buildings. Due to the restaurant size, we ate in shifts to enjoy an excellent lunch. ...On Friday morning at 7 AM, the fairground gates swung open initiating in fierce swap meet buying and selling. Everything from antique dresses to a full-scale horse pulling buggy plus many cars were for sale. Besides the swap meet, we had a catered chicken lunch and a two hour tour to a nearby farm to visit a railroad memorabilia collection. After dinner in ORG tent, we auctioned donated items for the CO-29 generating \$.Great buys are indeed at City! The successful day concluded with camaraderie in the hospitality room...."

Tour itinerary information of ORG 20XX National Tour and Convention in City was issued to its members as follows:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

- Tuesday Feb. 20, 20XX
9:00AM, Tour leaves the hotel, traveling north along the coast through coastal communities. You will be visiting two private auto collections along the way. Lunch will be provided.
4:30 PM CO-3s Meeting at the Hotel. Dinner is on your own.
- Wednesday Feb. 21, 20XX
9:00 AM leave the hotel for a ride along Bay, continuing to the City Harbor area. You will be boarding the CO-26, for self guided tours. Lunch will be served on board.
1: 30 PM We will leave, touring along City Harbor to the City area and on to the Park. Returning to the hotel you will be visiting another private auto collection.
5:30 PM ORG Annual Meeting. Dinner is on your own .
- Thursday Feb. 22, 20XX
9:00 AM Tour leaves the hotel for a ride to Historic Park. You will be visiting The City Auto Museum and other museums in the area. Lunch will be served. After lunch you will be touring over City Bay on the City Bay Bridge and through the village of City.
6:30 PM Reception and final banquet
- Friday Feb. 22, 20XX
The SWAP MEET opens today and runs through Sunday. The swap meet is located about three miles east from the hotel, is also on the route of the trolley that runs through the hotel. The hotel room rates are good though the week end for the Swap Meet.

LAW

IRC §501(a) provides, in part, that organizations described in IRC §501(c) are exempt from federal income tax. Section 501(c)(3) of the Code describes, in part, an organization that is organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Treasury Regulations ("Treas. Reg.") §1.501(c)(3)-1(a)(1) states that in order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

organization fails to meet either the organizational test or the operational test, it is not exempt.

Treas. Reg. §1.501(c)(3)-1(b) provides an entity's organizing documents should limit the purpose of the organization to one or more exempt purposes and not empower the organization to engage in activities which are not in furtherance of an exempt purpose.

Treas. Reg. §1.501(c)(3)-1(b)(6) provides an organization formed prior to July 27, 1959 is not required to amend its organizing document to conform to the organizational test and its exemption cannot be revoked solely for failure to meet these requirements unless it seeks a new determination of its status.

Treas. Reg. §1.501(c)(3)-1(c)(1) states that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which 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.

Treas. Reg. §1.501(c)(3)-1(c)(2) states 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.

Treas. Reg. §1.501(a)-1 defines "private shareholder or individual" as a person "having a personal and private interest in the activities of the organization.

Treas. Reg. §1.501(c)(3)-1(d)(1)(ii) states that an organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (i) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, 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.

Treas. Reg. §1.501(c)(3)-1(d)(2) defines the term "charitable" as including the relief of the poor and distressed or of the underprivileged, and the promotion of social welfare by organizations designed to lessen neighborhood tensions, to eliminate prejudice and discrimination, or to combat community deterioration. The term "charitable" also includes the advancement of education.

Treas. Reg. §1.501(c)(3)-1(d)(3)(i) defines "educational" as " In general... (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.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

In *Better Business Bureau of Washington, D.C. v. U.S.*, 326 U.S. 279, 283 (1945), the Supreme Court held that the "presence of a single . . . [nonexempt] purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly . . . [exempt] purposes."

Revenue Ruling 77-366 involves a nonprofit organization that arranges and conducts winter-time ocean cruises during which activities to further religious and educational purposes are provided in addition to extensive social and recreational activities is not operated exclusively for exempt purposes and does not qualify for exemption. In this case, the organization accomplishes both charitable and noncharitable purposes through its cruises. The organization does not qualify for exemption from Federal income tax under *IRC § 501(c)(3)* because it is not being operated exclusively for exempt purposes.

Revenue Ruling 76-366 relates to an association of investment clubs formed for the mutual exchange of investment information among its members and prospective investors to enable them to make sound investments. While some of the association's activities are educational, and of the kind that might be carried on by an organization described in *IRC § 501(c)(3)*, many of the activities listed above are directed in whole or in part to the support and promotion of the economic interests of the investment clubs that comprise its membership. Thus, the association is not organized and operated exclusively for charitable and educational purposes, and thus does not qualify for exemption from Federal income tax under *IRC § 501(c)(3)*.

Record Keeping Requirement

IRC §6001 states that every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title.

IRC §6033(a)(1) of the Code states that in general, every organization exempt from taxation under section 501(a) shall file an annual return, stating specifically the items of gross income, receipts, and disbursements, and such other information for the purpose of carrying out the internal revenue laws as the Secretary may by forms or regulations prescribe, and shall keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

Treas. Reg. §1.6001-1(a) in conjunction with *Treas. Reg. §1.6001-1(c)* provides that every organization exempt from tax under *IRC section 501(a)* and subject to the tax imposed by *IRC §511* on its unrelated business income must keep such permanent books or accounts or records, including inventories, as are sufficient to establish the amount of gross income, deduction, credits, or other matters required to be shown by such person in any return of such tax. Such organization shall also keep such books and records as are required to substantiate the information required by *IRC §6033*.

Treas. Reg. §1.6001-1(e) states that the books or records required by this section shall be kept at all times available for inspection by authorized internal revenue officers or employees, and shall be retained so long as the contents thereof may become material in the administration of any internal revenue law.

Revenue Ruling 59-95, 1959-1 CB 627, (Jan. 01, 1959) states that an organization previously held exempt from Federal income tax was requested to produce a financial statement as of the end of the year and a statement of its operations during such year. However, its records were so incomplete that it was unable to furnish such statements. ... *Held*, failure or inability to file the required information return or otherwise to comply with the provision of *IRC §6033* and the regulations which implement it, may result in the termination of the exempt status of an organization previously held exempt, on the grounds that the organization has not established that it is observing the conditions required for the continuation of an exempt status.

The Effective Date of Revocation

Treas. Reg. §1.501(a)-1(a)(2) states that subject only to the Commissioner's inherent power to revoke rulings because of a change in the law or regulations or for other good cause... an organization that has been determined by the Commissioner or the district director to be exempt under section 501(a) or the corresponding provision of prior law may rely upon such determination so long as there are no substantial changes in the organization's character, purposes, or methods of operation.

Treas. Reg. §601.201(n)(3)(ii) states that a ruling or determination letter recognizing exemption may not be relied upon if there is a material change inconsistent with exemption in the character, the purpose, or the method of operation of the organization.

Treas. Reg. §601.201(n)(6)(i) states "[a]n exemption ruling or determination letter may be revoked or modified by a ruling or determination letter addressed to the organization... The revocation or modification may be retroactive if the organization omitted or misstated a material fact, operated in a manner materially different from that originally represented..."

GOVERNMENT POSITION

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

In order for an organization to retain its exempt status, it must demonstrate to the Internal Revenue Service that it meets both the organizational and the operational tests. The facts stated above indicate that ORG failed both the organizational and the operational tests.

ORG fails the organizational test because its Articles of Incorporation, remain in effect, do not contain a purpose clause that the organization is organized exclusively for religious, charitable, scientific, literary, and educational purposes, including for such purposes, the making of distributions to organizations under *IRC § 501(c)(3)* or the corresponding provision of any United States Revenue law. The exception prescribed in *Treas. Reg. § 1.501(c)(3)-1(b)(6)* does not apply to ORG since it requested a new determination of its status.

Receipts of ORG are from membership dues, interests and investment income, merchant sales, and advertisement income from its publication. Disbursements are for administrative and publication expenses, including compensation paid to publication editors and web masters. ORG did not disburse or budget its available funds for educational activities except the educational DVD. ORG fails the operational test because it engages in substantial activities that fail to further an exempt purpose specified in *IRC § 501(c)(3)*. Thus, ORG's purposes, as evidenced by its activities, are not exclusively educational. ORG provides a place for its members where they may exchange ideas either on its magazines or web site, and they can associate with each other and become more proficient in their hobbies. It is operated primarily to accommodate its members in their recreational pursuits. The facts in this situation are distinguishable that ORG is organized and operated primarily for the benefit, pleasure, or recreation of its members. Its activities are only incidentally educational.

While some of ORG's activities are educational, such as some fashion and technical articles published in its web site and magazine, and of the kind that might be carried on by an organization described in *IRC § 501(c)(3)*, many of the activities conducted by ORG are directed in whole or in part to the support and promotion of the personal interests of ORG that comprise its membership. These activities are not in furtherance of charitable and educational purposes. The overall activities of ORG are not shown to be primarily educational in the charitable sense of serving a public interest or purpose. Further, by providing information to members to enable them to buy, sell, restore, or maintain their antique vehicles, ORG is considered as serving its members' interests, not public interests.

An organization is not operated exclusively for exempt purposes and does not qualify for exemption when extensive social and recreational activities are provided in addition to further its educational purpose. ORG's tours, as described in the itinerary and articles published in ORG's web site, are socialized and recreational in nature such as shopping, wine testing, driving and sightseeing through stunning rolling-hill back roads, dining in restaurants, picnicking in parks, and visiting museums and other attractions during the

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Form 990 Examination
Name of Taxpayer		Year/Period Ended
ORG		09/30/20XX

tours. Again, ORG is not able to demonstrate that it accomplishes educational purposes through its operation of guided tours. The extensive amount of time, energy, and other resources are regularly devoted to the conduct of social and recreational activities. ORG's conduct of such social and recreational activities serves substantial independent purpose of a noncharitable nature.

Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized or operated for exempt purposes unless it serves a public rather than a private interest. The term "educational" is used in *IRC § 501(c)(3)* in its general legal sense in the law of charities and does not have a separate and distinct meaning from the term "charitable." In construing the meaning of the phrase "exclusively for educational purposes" in *Better Business Bureau v. United States*, 326 U.S. 279 (1945), Ct. D. 1650, 1945 C.B. 375, the Supreme Court of the United States said, "This plainly means that the presence of a single noneducational purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly educational purposes."

TAXPAYER'S POSITION

ORG's position on these issues is unknown at this time.

CONCLUSION

ORG fails both the organizational and the operational test prescribed in *Treas. Reg. 1.501(c)(3)-1*. Since ORG is not organized and operated exclusively for one or more exempt purposes under *IRC § 501(c)(3)*, its Federal tax exempt status under such section is revoked effective on October 1, 20XX. ORG is required to file Form 1120, *U.S. Corporation Income Tax Return*, for the tax year ending September 30, 20XX and all years thereafter.