

Internal Revenue Service

Department of the Treasury

District Director
1100 Commerce St.
Dallas, Texas 75242

Date:

Employer ID Number:

Person to Contact:

Telephone Number:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

You were incorporated under the [REDACTED] Article II B. of your Articles of Incorporation states that the specific purposes of this corporation are to: 1) Promote the social, cultural and economic welfare of its members and the public. 2) Create a forum where individual members would be encouraged to express their ideas 3) Promote our cultural heritage in [REDACTED] and 4) Provide social and economic benefits to the members in accordance with the by-laws of the [REDACTED].

Your Article IV A. states that the corporation is organized and operated exclusively for the charitable purposes within the meaning of section 501(c)(3) of the Internal Revenue Code.

In our letter dated [REDACTED], we requested that you amend your Articles of Incorporation to meet the organizational test required under Code section 501(c)(3) by deleting the language in your Article II B. In your letter dated [REDACTED], you indicated that the purposes listed are the major areas in which the organization intends to engage. You also asked if deleting the word [REDACTED] would meet the requirement.

In our letter dated [REDACTED], we explained that deleting the word [REDACTED] would not correct the deficiency in the language of your Articles of Incorporation. We also explained that the language contained in Article II B. was vague and may be accomplished other than in an exempt manner. Again, we requested an amendment to comply with the requirements of Code section 501(c)(3).

In your letter dated [REDACTED], you implied that we were trying to make things difficult for an honest taxpayer, that we were misreading the Regulations and that we concluded you were a social club. You further stated that our interpretation of Regulation section 1.501(c)(3)-1(2)(b)(iv) regarding the organization is misplaced and that your Articles were specific and not broad. You went on to state that your Articles of Incorporation coupled with your bylaws sufficiently and specifically outlines your activities that are within the framework and meaning of Code section 501(c)(3).

Section 501(c)(3) of the Code provides exemption for:

"Corporations...organized and operated exclusively for religious, charitable...or educational purposes...no part of the net earnings of which inures to the benefit of any private shareholder or individual..."

Section 1.501(c)(3)-1(b)(1)(i) of the Income Tax Regulations provides that an organization is organized exclusively for one or more exempt purposes only if its Articles of Organization -

- (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 of the regulations provides, in part, as follows:

"(a)(1) 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 organization fails to meet either the organizational test or the operational test, it is not exempt."

"(a)(2) The term "exempt purpose or purposes," as used in this section, means any purpose or purposes specified in section 501(c)(3), as defined and elaborated in paragraph (d) of this section."

Regulation section 1.501(c)(3)-1(2)(b)(iii) states "An organization is not organized exclusively for one or more exempt purposes if its articles expressly empower it to carry on, otherwise than as an insubstantial part of its activities, activities which are not in furtherance of one or more exempt purposes, even though such organization is, by the terms of such articles, created for a purpose that is no broader than the purposes specified in section 501(c)(3). Thus, an organization that is empowered by its articles "to engage in a manufacturing business", or "to engage in the operation of a social club" does not meet the organizational test regardless of the fact that its articles may state that such organization is created "for charitable purposes within the meaning of section 501(c)(3) of the Code."

"(b)(1)(iv) In no case shall an organization be considered to be organized exclusively for one or more exempt purposes, if, by the terms of its articles, the purposes for which such organization is created are broader than the purposes specified in section 501(c)(3). The fact that the actual operations of such an organization have been exclusively in furtherance of one or more exempt purposes shall not be sufficient to permit the organization to meet the organizational test. Similarly, such an organization will not meet the organizational test as a result of statements or other evidence that the members thereof intend to operate only in furtherance of one or more exempt purposes."

We did not imply that you are a social club. The reference to operation of a social club is an example of a stated purpose which will not satisfy the organizational test because it is broader than the purposes specified in Code section 501(c)(3). Like the example your Articles of Incorporation include purposes that are broader than those specified in Code section 501(c)(3).

When Regulations section 1.501(c)(3)-1(b)(iii) is considered, to promote the social, cultural and economic welfare of its members and the public and the other purposes specified in Article II B. of your Articles of Incorporation are not necessarily activities which are in furtherance of one or more exempt purposes, even if your organization is, by the terms of your articles, created for a purpose that is no broader than the purposes specified in section 501(c)(3).

When Regulations section 1.501(c)(3)-1(b)(iv) is considered, the purposes stated in your Article II B. are broader than those specified in Code section 501(c)(3) and statements in your Form 1023, bylaws or any other document are not sufficient to permit you to meet the organizational test.

Per Regulations section 1.501(c)(3)-1(a)(1) you must be both organized and operated exclusively for one or more purposes specified in Code section 501(c)(3) to qualify for exemption. You are not organized exclusively for purposes specified in Code section 501(c)(3), therefore, you do not qualify for exemption regardless of whether or not you operate in furtherance of purposes specified in Code section 501(c)(3).

Thus, you are not exempt from Federal income tax under Code section 501(c)(3). You are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 592 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Code as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

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

Sincerely,

Ellen Murphy

Ellen Murphy
Acting District Director

Enclosures:
Publication 592
Form 6018