

[REDACTED]

[REDACTED]

Employer Identification Number: [REDACTED]
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

You conduct a non-denominational ministry designed to strengthen and encourage families. Seminars on Christian family living and related topics are conducted at various locations, local churches, conventions, etc., to which you are invited. Your presentations have been conducted in many locations in both the [REDACTED]. You produce and sell audio tapes concerning the family related topics on which you conduct seminars. You also conduct a [REDACTED] in which all [REDACTED] family members participate, at the churches, conventions, etc., where you are invited to conduct seminars. The clothing, provided and maintained by you, worn by the family members as [REDACTED] for these performances is normal [REDACTED] attire that could readily be worn by the family members for occasions other than your performances.

Your receipts are from seminar fees, contributions, and the sale of materials. Approximately one third of your revenue is from the sale of tapes. You furnish the blank tapes and bear the costs of the processes of preparing and duplicating the tapes. More than half of the sales price of the tapes is paid to [REDACTED] in the form of royalties. The order form which you distribute, titled [REDACTED] contains the prominent statement, [REDACTED]

The selling of bread machines and scripture pictures are the private businesses of [REDACTED] respectively. The [REDACTED] also makes reference to the individual businesses of [REDACTED]

_____ according to your by-laws will "supervise and control all of the business and affairs of the corporation." The other officers are _____,

_____. The other two directors live in _____ and _____. In writing your newsletter, the _____ refer to your operations as _____.

Section 501(a) of the Code, in part, provides for the exemption from federal income tax for organizations described in section 501(c).

Section 501(c)(3) of the Code, in part, provides for the exemption of organizations which are both organized and operated exclusively for charitable purposes as long as, among other conditions, no part of the net earnings inure to the benefit of any private individual or shareholder.

Section 1.501(c)(3)-1(a) of the Income Tax Regulations states, in part, that if an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(b)(1) of the regulations states, in part, that an organization is not organized exclusively for exempt purposes unless its activities are limited to one or more exempt purposes.

Section 1.501(c)(3)-1(c)(2) of the regulations states, in part, that an organization is not operated exclusively for 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) of the regulations states, in part, that the words private shareholder or individual 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, in part, states that an organization is not organized or operated for exempt purposes unless it serves a public rather than a private interest.

In Better Business Bureau of Washington D.C. v. United States, 326 U.S. 279 (1945), it was held that a single non-exempt purpose, if substantial in nature, would preclude exemption under section 501(c)(3) of the Code regardless of the number or importance of truly exempt purposes.

In Bill Wildt's Motorsport Advancement Crusade v. Commissioner, No. 22975-87X, T.C. Memo 1989-93 (March 9, 1989),

56 TCM 1989-93, the court found a substantial non-exempt purpose of promoting the competitive and commercial [redacted]. It also found that because the creators has a significant involvement in the industry, controlled the organization as its trustees, were the primary salaried employees, and the bulk of the money budgeted for contracted equipment would go to one of these individuals for the use of his equipment, petitioners had not shown that there was no inurement of earnings to the benefit of private individuals. For both of these reasons the court held that petitioners did not qualify for exemption under section 501(c)(3) of the Code.

In Church by Mail, Inc., v. United States, 88-2 USTC 9625 (Nov. 28, 1988), the court denied exemption under section 501(c)(3) of the Code because, rather than being operated exclusively for exempt purposes, CBM was operated substantially for the financial benefit of two of its four creators and their families and close associates; and, net income inured to their private benefit. The four creators constituted the Board of Trustees and principal officers of CBM. The two creators were also the sole shareholders of and controlled two other related organizations. The three organizations shared space and employees and CBM contracted with them for services. Through these arrangements, in addition to the excessive compensation being paid to them, substantial funds were funneled from CBM to these two creators, their families and close associates, and otherwise used to benefit them.

You were created by the [redacted] and are operated by them. As officers, the [redacted] are in control of your day to day operations. They are the ones who determine which invitations to accept, what other appearances might be made, and handle all of your correspondence. While it is the directors who appoint, and could remove, the officers, the other [redacted] directors are too distant to know first hand all the details of what is transpiring. Thus, you are effectively controlled by your creator and his family.

It is also the [redacted] that control the finances in that all receipts come to them and all bill payments and other distributions are made by them. The fact that the [redacted] award themselves over [redacted] of your receipts from the sale of tapes as royalties indicates the operation for private benefit in contravention of sections 1.501(c)(3)-1(b)(1) and 1.501(c)(3)-1(d)(1)(ii) of the regulations and would preclude recognition of exemption under section 501(c)(3) of the Code. This serving of private interests indicates a substantial non-exempt purpose which, under the rationale of Better Business Bureau, supra, would alone be sufficient to preclude recognition of exemption under section 501(c)(3). These payments, because the [redacted] are

persons described in section 1.501(a)-1(c), also constitute the inurement of your earnings to private individuals as described in section 1.501(c)(3)-1(c)(2) and would also preclude recognition of exemption under section 501(c)(3). There are other indications of inurement and/or the serving of private interests, such as your facilitation and/or promotion of the private business interests of [REDACTED] members and the furnishing of clothing.

Therefore it appears you were created and are operated to impart a substantial private benefit on your creator and his family and that there is inurement of your net earning to them. Thus, rather than the description of an exempt entity, you appear to fit the description of the organizations in Bill Wildt's Motorsport Advancement Crusade and Church by Mail, Inc., *supra*, which were not exempt because of inurement of net earnings and the serving of private interests.

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(3) of the Code and you must file federal income tax returns.

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

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgement or decree under this section shall not be issued in any proceeding unless the Tax Court, the United States Court of Federal 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 we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district

[REDACTED]
office. Thereafter, any questions about your federal income tax status should be addressed to that office. The appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

~~Internal Revenue Service~~
~~Room 3339~~
~~1111 Constitution Ave, N.W.~~
~~Washington, D.C.~~

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

Sincerely,

(Signed) [REDACTED]
[REDACTED]
[REDACTED] ons

cc: [REDACTED]
[REDACTED] Division

[REDACTED]