



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
TE/GE – EO Mandatory Review  
1100 Commerce Street, MC 4920-DAL  
Dallas, TX 75242

TAX EXEMPT AND  
GOVERNMENT ENTITIES

DIVISION

Release Number: 200822039

Release Date: 5/30/08

Legend

Org = Organization Name

UIL: 501.03-01

XX = Date

Address = address

Date: February 21, 2008

ORG

ADDRESS

Employer Identification Number:

Person to Contact:

Identification Number:

Contact Telephone Number:

In Reply Refer To:

TE/GE Review Staff

**LAST DAY FOR FILING A  
PETITION WITH TAX COURT:**

May 22, 20xx

**CERTIFIED MAIL – Return Receipt Requested**

Dear

This is a Final Adverse Determination revoking your exempt status under section 501(c)(3) of the Internal Revenue Code.

Our adverse determination was made for the following reasons:

ORG has failed to provide evidence you are currently operated exclusively for exempt purposes within the meaning of Internal Revenue Code section 501(c)(3). You are not a charitable organization within the meaning of Treasury Regulations 1.501(c)(3)-1(d) in that you failed to establish that you were operated exclusively for an exempt purpose. You did not respond to our request for documentation to substantiate your activities and fiscal operations.

Based upon the above, we are revoking your organization's exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code retroactively to January 1, 20XX.

Contributions to your organization are no longer deductible under section 170 of the Internal Revenue Code.

You are required to file Federal income tax return Form 1120. These returns should be filed with the appropriate Internal Revenue Campus for the year ending December 31, 20XX and for all years thereafter.

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

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

You also have the right to contact the office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers. You can call 1-877-777-4778 and ask for Taxpayer Advocate assistance. Or you can contact the Taxpayer Advocate from the site where the tax exempt status was determined by calling or writing to: Internal Revenue Service, Taxpayer Advocates Office.

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

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

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

Sincerely,

Marsha A. Ramirez  
Director, EO Examinations

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>Name of Taxpayer</b>		<b>Year/Period Ended</b>
ORG		December 20XX

**LEGEND**

ORG = Organization name      XX = Date      XYZ = State      President = President  
CO-1 = 1<sup>st</sup> company      CO-2 = 2<sup>nd</sup> company  
CO-Owner = CO-Owner

**ISSUE:**

1. Whether an organization described below has met its obligations to provide sufficient information to prove to the Service that it is operating in accordance with Section 501(c) (3) of the Code and continues to qualify as an exempt organization under IRC 501(c)(3).
2. Whether an organization described below has provided the necessary information for the Service to determine whether or not they have participated in transactions that qualify as violations under IRC 4958.

**FACTS:**

ORG (ORG) is incorporated in the State of XYZ as a non-profit domestic corporation. The Internal Revenue Service granted tax exemption to ORG on September 21, 20XX, effective on June 6, 20XX as an organization described under Section 501(c)(3) and 170(b)(1)(A) (ii).

The Service attempted to conduct a correspondence examination on the Form 990 for the period ending December 31, 20XX and requested information pertaining to ORG's organization and operation.

On January 16, 20XX the Service sent Information Document Request (IDR) # 1, with a response due date of February 5, 20XX. The IDR requested that ORG provide supporting information to substantiate assertions on their Form 990 for 20XX. The IDR#1 requested information that would be used to determine if ORG 1) met the operational test under IRC 501(c) (3), 2.) was subject to tax imposed by section 511 of the Code, and 3.) filed all required returns.

*ORG's reply to IDR #1 was received on February 6, 20XX. The pertinent information obtained in the package relative to qualification of exemption is described below:*

Promissory Note dated June 30, 20XX was identified. ORG was obligated to CO-1 (CO-1), a related entity. CO-1 is related to ORG through board members and officers. The Promissory Note was for the amount of \$ with an interest rate of 8% annually. The binding document has the signature of ORG's President, President. President is considered a disqualified person under IRC 4958 by the fact that he is an officer of ORG.

The note states, in part, that unpaid principal shall be payable on demand, taking on the character of a demand loan; yet, it also states, in part, all payments on the Note shall be applied first in payment of accrued interest and any remainder in payment of principal. Whether the Promissory

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Note is a term or demand loan, the Applicable Federal Rates (AFR) for the starting date of the Note with the stated interest rate of 8% is *above* market. See Table.

Rev. Rul. 20XX-60 TABLE 1  
Applicable Federal Rates (AFR) for June 20XX  
Period for Compounding

	<u>Annual</u>	<u>Semiannual</u>	<u>Quarterly</u>	<u>Monthly</u>
<u>Short-Term</u>				
AFR	1.49%	1.48%	1.48%	1.48%
110% AFR	1.64%	1.63%	1.63%	1.62%
120% AFR	1.79%	1.78%	1.78%	1.77%
130% AFR	1.93%	1.92%	1.92%	1.91%
<u>Mid-Term</u>				
AFR	3.06%	3.04%	3.03%	3.02%
110% AFR	3.37%	3.34%	3.33%	3.32%
120% AFR	3.68%	3.65%	3.63%	3.62%
130% AFR	3.99%	3.95%	3.93%	3.92%
150% AFR	4.61%	4.56%	4.53%	4.52%
175% AFR	5.39%	5.32%	5.29%	5.26%
<u>Long-Term</u>				
AFR	4.65%	4.60%	4.57%	4.56%
110% AFR	5.12%	5.06%	5.03%	5.01%
120% AFR	5.60%	5.52%	5.48%	5.46%
130% AFR	6.07%	5.98%	5.94%	5.91%

On July 22, 20XX, approximately 13 months later from the origination of the Note, directors and shareholders of CO-1 signed a document indicating that the debt of \$ was forgiven. ORG President was one of the CO-1 names shown as director and shareholder. It has been established that ORG President, President, is a disqualified person. This document establishes that a disqualified person, President, has participated in an "economic benefit" transaction as discussed in IRC 4958.

Another document was identified with ORG in the heading. This document indicated that there was an exchange between CO-Owner, part or whole, owner of CO-2 (CO-2) and ORG. The terms of the agreement were CO-Owner's will surrender equity interest in CO-2 for a write off of

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the accounts receivable on ORG books. During the time of the contact with the president neither the value of the write-off, equity interest nor percentage of the interest was disclosed to the Service.

ORG filed a Form 990 for the year ending December 31, 20XX and answered question 88 of Part VI of the 990 return as "no". The questions states,

"At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations section 301.7701-e and 301.7701-3? If "Yes" complete Part IX."

On the same Form 990 for the year ending December 31, 20XX ORG answered question 89b of Part VI as "no". The question states,

"Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction."

Furthermore, Form 990 for the year ending December 31, 20XX ORG answered "N/A" for the question in Part IX. The section states,

**Information Regarding Taxable Subsidiaries and Disregarded Entities** and it requires information for a.) Names, EIN, address, b) percentage of ownership interest, c) nature of activities, d) total income, and e) End of year assets.

On February 26<sup>th</sup>, 20XX the Service issued Information Document Request # 2 with a response due date of March 6, 20XX. Items requested were, in part:

- 1.) Provide an identification number for two entities CO-1 & CO-2
- 2.) According to information gained from previous IDR, what is the percentage of ORGs business holdings in CO-2?
- 3.) Account "Loans from Stockholders" #      with a balance of \$      where did the funds come from? What are the terms of the loan? Please provide evidence.
- 4.) Prior to ORGs,      exemption what was the name of the school and was it ran as a for profit entity?

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5.) Why did ORG. loan \$ to CO-2? Please provide evidence of payment terms.

On March 21, 20XX the Service received ORG response to IDR request #2. Information included the following:

- Part IV-A & B and Part V of Form 990
- A supply list and prices
- Confidentiality Statement for ORG
- Phlebotomy Technician Enrollment Agreement
- Refund Policy for ORG
- Job Placement form for the students
- Phlebotomy Technician Externship (Clinical) Agreement
- Phlebotomy Technician Tuition Payment Contract
- Form to solicit credit information from potential students
- Memo to students on HIPPA/Confidentiality and PPD Shot
- Memo to students to include \$ fee
- Direction to                      Class
- Mandatory Student Check off list
- Application form for students

None of the items listed above sent as a response to IDR #2 by ORG are relevant to the information requested by the Service.

Through research conducted by the agent in charge the following additional facts have been identified:

- 1.) CO-2 is a for profit entity according to XYZ. Secretary of State.
- 2.) President, President of ORG was also the CEO for CO-2. This information shows that ORG President, President, is the president of CO-1, a profit entity and has influence as a shareholder/officer of CO-2, another for profit entity.
- 3.) The CFO of ORG, CFO, was also the registered agent and held the CEO and CFO position of CO-1.
- 4.) ORG entered into economic transactions with both CO-2 and CO-1.

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During the period of February 5, 20XX to May 25, 20XX, several attempts were made to obtain the requested information from ORG. Although some information was provided to the Service, information deemed to be necessary and important to the determinations as to whether or not 1.) ORG meets the operational test under IRC 503(c) (3) and 2.) were there transaction violations under IRC 4958 was not provided, such as, information relative to loans/agreement arrangements with for profit companies in which ORG identified disqualified persons has ownership interest.

On May 16, 20XX, a certified letter was sent to ORG requesting they cooperate with the agent in charge of the examination. ORG was given May 23, 20XX as the date to contact on or before the agent in charge. The certified receipt was received by the Service showing a ORG board member signature as received. As of the current date the Service has received no contact with ORG.

**APPLICABLE LAW:**

IRC § 6001 provides that every person liable for any tax imposed by the IRC, or for the collection thereof, shall keep adequate records as the Secretary of the Treasury or his delegate may from time to time prescribe.

IRC § 6033(a)(1) provides, except as provided in IRC § 6033(a)(2), every organization exempt from tax 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 purposes of carrying out the internal revenue laws as the Secretary may by forms or regulations prescribe, and 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.

Treas. Reg. § 1.6001-1(a) in conjunction with Treas. Reg. § 1.6001-1(c) provides that every organization exempt from tax under IRC § 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 as long as the contents thereof may be material in the administration of any internal revenue law.

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>Name of Taxpayer</b>		<b>Year/Period Ended</b>
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Treas. Reg § 1.6033-1(h) (2) provides that every organization which has established its right to exemption from tax, whether or not it is required to file an annual return of information, shall submit such additional information as may be required by the district director for the purpose of enabling him to inquire further into its exempt status and to administer the provisions of subchapter F (section 501 and the following), chapter 1 of the Code and IRC § 6033.

*Rev. Rul. 59-95, 1959-1 C.B. 627*, concerns an exempt organization that was requested to produce a financial statement and statement of its operations for a certain year. However, its records were so incomplete that the organization was unable to furnish such statements. The Service held that the failure or inability to file the required information return or otherwise to comply with the provisions 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 exempt status.

In accordance with the above cited provisions of the Code and regulations under IRC § 6001 and 6033, organizations recognized as exempt from federal income tax must meet certain reporting requirements. These requirements relate to the filing of a complete and accurate annual information (and other required federal tax forms) and the retention of records sufficient to determine whether such entity is operated for the purposes for which it was granted tax-exempt status and to determine its liability for any unrelated business income tax.

IRC Section 4958 was added to the Internal Revenue Code by section 1311 of the Taxpayer Bill of Rights 2, P.L. 104-168, 110 Stat. 1452, enacted July 30, 1996. The section 4958 excise taxes generally apply to excess benefit transactions occurring on or after September 14, 1995. The Report from the Committee on Ways and Means on the Taxpayer Bill of Rights 2, H.R. 2337, was submitted March 28, 1996. H. Rep. No. 506, 104<sup>th</sup> Cong., 2d. Sess. (1996) 53. Proposed regulations were published in the Federal Register August 4, 1998, 63 F.R. 41486. The proposed regulations were replaced by temporary regulations that were published in the Federal Register January 10, 20XX, 66 F.R. 2173. The temporary regulations were replaced by final regulations that were published in the Federal Register January 23, 20XX, 67 F.R. 3076. The final regulations, which apply as of January 23, 20XX, are substantially similar to the provisions in the proposed regulations or the temporary regulations.

Section 4958 of the Code imposes excise taxes on each excess benefit transaction between an applicable tax-exempt organization and a disqualified person.



Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
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ORG		December 20XX

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Section 4958(e) defines “applicable tax-exempt organization” as an organization described in either IRC § 501(c)(3) or IRC § 501(c)(4), or an organization which was so described at any time during the five-year period ending on the date of the excess benefit transaction, but such term does not include a private foundation as defined in IRC §509(a).

Section 4958(f)(1) defines “disqualified person” as (A) any person who was, at any time during the five-year period ending on the date of such transaction, in a position to exercise substantial influence over the affairs of the organization, (B) a member of the family of a disqualified person, or (C) a 35-percent controlled entity.

Section 4958(f) (2) defines “organization manager” as any officer, director, or trustee of an exempt organization, or any individual having powers or responsibilities similar to those of an officer, director, or trustee.

Section 4958(a)(1) imposes on each disqualified person who receives an excess benefit from an excess benefit transaction a tax equal to 25 percent of the excess benefit (the “first tier tax”).

Section 4958(a)(2) is applicable in any case where the first tier tax has been imposed, and it imposes on any organization manager who participates in the excess benefit transaction, knowing that it is such a transaction, a tax equal to 10 percent of the excess benefit, unless such participation is not willful and is due to reasonable cause.

Section 4958(b) provides that where the first tier tax is imposed, but the excess benefit involved in such transaction is not corrected within the taxable period, a tax equal to 200 percent of the excess benefit involved is imposed and must be paid by any disqualified person with respect to such transaction.

Section 4958(c)(1)(A) defines “excess benefit transaction” as any transaction in which an economic benefit is provided by an “applicable tax-exempt organization” directly or indirectly to or for the use of any disqualified person if the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing such benefit.

Treas. Reg 53.4958-3(c) provides that voting members of the governing body, presidents, chief executive officers, or chief operating officers are persons who are in a position to exercise substantial influence over the affairs of the organization.

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>Name of Taxpayer</b>  ORG		<b>Year/Period Ended</b>  December 20XX

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**Treas. Reg. 53.4958-4 (a) Definition of excess benefit transaction--(1) In general.** An excess benefit transaction means any transaction in which an economic benefit is provided by an applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person, and the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing the benefit.

**Treas. Reg § 53.4958-4(b) Valuation standards--(1) In general.** This section provides rules for determining the value of economic benefits for purposes of section 4958.

**Treas. Reg. 53.4958-4(b) (ii) Reasonable compensation--(A) In general.** The value of services is the amount that would ordinarily be paid for like services by like enterprises (whether taxable or tax-exempt) under like circumstances (i.e., reasonable compensation). Section 162 standards apply in determining reasonableness of compensation, taking into account the aggregate benefits (other than any benefits specifically disregarded under paragraph (a) (4) of this section) provided to a person and the rate at which any deferred compensation accrues. The fact that a compensation arrangement is subject to a cap is a relevant factor in determining the reasonableness of compensation. The fact that a State or local legislative or agency body or court has authorized or approved a particular compensation package paid to a disqualified person is not determinative of the reasonableness of compensation for purposes of section 4958.

**Treas. Reg. 53.4958-4(b) (ii) (B) Items included in determining the value of compensation for purposes of determining reasonableness under section 4958.** Except for economic benefits that are disregarded for purposes of section 4958 under paragraph (a)(4) of this section, compensation for purposes of determining reasonableness under section 4958 includes all economic benefits provided by an applicable tax-exempt organization in exchange for the performance of services. These benefits include, but are not limited to— 1) All forms of cash and noncash compensation, including salary, fees, bonuses, severance payments, and deferred and noncash compensation described in § 53.4958-1(e)(2); (2) Unless excludable from income as a de minimis fringe benefit pursuant to section 132(a) (3) All other compensatory benefits, whether or not included in gross income for income tax purposes, including payments to welfare benefit plans, such as plans providing medical, dental, life insurance, severance pay, and disability benefits, and both taxable and nontaxable fringe benefits (other than fringe benefits described in section 132), including expense allowances or reimbursements (other than expense reimbursements pursuant to an accountable plan that meets the requirements of § 1.62-2(c)), and the economic benefit of a below-market loan (within the meaning of section 7872(e)(1)). (For this purpose, the economic benefit of a below-market loan is the amount deemed transferred to the disqualified person under section 7872(a) or (b), regardless of whether section 7872 otherwise applies to the loan).

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>Name of Taxpayer</b>		<b>Year/Period Ended</b>
ORG		December 20XX

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**IRC § 501(c)(3) exempts from federal income tax organizations organized and operated exclusively for charitable, educational, and other exempt purposes, provided that no part of the organization's net earnings inures to the benefit of any private shareholder or individual.**

**Treas. Reg. 1.501(c)(3)-1 Organizations organized and operated for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals.**

**Treas. Reg. 1.501(c)(3)(a) Organizational and operational tests. (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.**

**Treas. Reg. 1.501(c) Operational test--(1) Primary activities. 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)(2) Distribution of earnings. 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. For the definition of the words private shareholder or individual, see paragraph (c) of § 1.501(a)-1.**

**Treas Reg.1.503 (b)-1 Prohibited transactions.**

**(a) In general. The term prohibited transaction means any transaction set forth in section 503(b) engaged in by any organization described in paragraph (a) of § 1.503(a)-1. Whether a transaction is a prohibited transaction depends on the facts and circumstances of the particular case. This section is intended to deny tax-exempt status to such organizations which engage in certain transactions which inure to the private advantage of (1) the creator of such organization (if it is a trust); (2) any substantial contributor to such organization; (3) a member of the family (as defined in section 267(c)(4) of an individual who is such creator of or such substantial contributor to such organization; or (4) a corporation controlled, as set forth in section 503(b), by such creator or substantial contributor.**

**Treas. Reg. 1.503(b)-1 (b) Loans as prohibited transactions under section 503(b)(1)--(1) Adequate security. For the purposes of section 503(b)(1), which treats as prohibited transactions certain loans by an organization without receipt of adequate security and a reasonable rate of**

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>Name of Taxpayer</b>		<b>Year/Period Ended</b>
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interest, the term adequate security means something in addition to and supporting a promise to pay, which is so pledged to the organization that it may be sold, foreclosed upon, or otherwise disposed of in default of repayment of the loan, the value and liquidity of which security is such that it may reasonably be anticipated that loss of principal or interest will not result from the loan.

**IRC Section 503. Requirements for exemption**

(b) Prohibited transactions.--For purposes of this section, the term "prohibited transaction" means any transaction in which an organization subject to the provisions of this section—

- (1) lends any part of its income or corpus, without the receipt of adequate security and a reasonable rate of interest, to;
- (4) makes any substantial purchase of securities or any other property, for more than adequate consideration in money or money's worth, from;
- (6) engages in any other transaction which results in a substantial diversion of its income or corpus.

the creator of such organization (if a trust); a person who has made a substantial contribution to such organization; a member of the family (as defined in section 267(c)(4)) of an individual who is the creator of such trust or who has made a substantial contribution to such organization; or a corporation controlled by such creator or person through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote

Section 511(a) of the Code imposes a tax on the unrelated business taxable income of organizations described in section 501(c), which includes section 501(c)(3).

**IRC Section 512. Unrelated business taxable income**

(a) Definition.--For purposes of this title--(1) General rule.--Except as otherwise provided in this subsection, the term "unrelated business taxable income" means the gross income derived by any organization from any unrelated trade or business (as defined in section 513) regularly carried on by it, less the deductions allowed by this chapter which are directly connected with the carrying on of such trade or business, both computed with the modifications provided in subsection (b).

**IRC 512 (b) (13) Special rules for certain amounts received from controlled entities.--**

(A) In general.--If an organization (in this paragraph referred to as the "controlling organization") receives or accrues (directly or indirectly) a specified payment from another entity which it controls (in this paragraph referred to as the "controlled entity"), notwithstanding paragraphs (1),

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(2), and (3), the controlling organization shall include such payment as an item of gross income derived from an unrelated trade or business to the extent such payment reduces the net unrelated income of the controlled entity (or increases any net unrelated loss of the controlled entity). There shall be allowed all deductions of the controlling organization directly connected with amounts treated as derived from an unrelated trade or business under the preceding sentence.

**TAXPAYER'S POSITION:**

ORG has not contacted the Service as of the current date, even though the agent in charge has made numerous attempts to obtain the necessary information.

**GOVERNMENT'S POSITION:**

Based on the facts shown above, ORG has been involved in transactions that need to be explained in detail to the Service for a determination to be made as to whether or not they are operating within scope of IRC 501(c)(3).

The Service has identified that ORG did not correctly complete the Form 990 for the period ending December 31, 20XX in relation to the identification of related wholly or partially owned taxable subsidiaries. ORG did not complete the section for IRC 4958 transactions correctly.

The minimal information received from ORG has shown that they have been involved in transactions with disqualified persons to gain an economic benefit. President was a disqualified person with respect to ORG since inception as noted in IRC 4958(f) (1) which reads, in part, a "disqualified person" as including any person who has a position to exercise substantial influence over the affairs of the organization. Treasury Regulation § 53.4958-3(c) further provides, in relevant part, that voting members of the governing body are persons who are in a position to exercise substantial influence over the affairs of the organization.

President held the position of ORG President. He was also a shareholder and/or director of CO-1, a for profit entity, which engaged in a loan arrangement with ORG that could have yielded an economic benefit for CO-1. The stated loan interest rate of 8% was *above* market according to Applicable Federal Rates (AFR). Treas. Reg. 53.4958-4(b) (ii) (B) (3) requires the Service to apply IRC 7872 regardless of whether IRC 7872 otherwise applies to the loan.

Likewise, CFO and CEO of ORG, could have incurred an economic benefit from the loan transaction due to her influence as a disqualified person with respect to ORG and her officer positions with CO-1.

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
<b>Name of Taxpayer</b>  ORG		<b>Year/Period Ended</b>  December 20XX

**LEGEND**

ORG = Organization name      XX = Date      XYZ = State      President = President  
CO-1 = 1<sup>st</sup> company      CO-2 = 2<sup>nd</sup> company  
CO-Owner = CO-Owner

The above market interest rate charged to ORG generates an economic benefit for President and which unless explained otherwise is a violation of IRC 4958.

Although it is permissible for an organization described in section 501(c) (3) to own a for profit entity, however, the percentage of ownership and monetary value of the ownership is a fact the Service needs to know. ORG stated "no" on their filed Form 990 for question 88 that specifically ask about ownership interest during the tax year 20XX. Neither did they include any information in Part IX of the Form 990 "Information Regarding Taxable Subsidiaries and Disregarded Entities".

ORG did not report to the Service the transactions between themselves and disqualified persons on the Form 990.

IRC § 6001 and § 6033 requires all organizations exempt from federal income tax must meet certain reporting requirements. These requirements relate to the filing of a complete and *accurate* annual return which ORG did not accordingly.

Due to the lack of information provided to the Service by ORG upon numerous requests by the agent in charge. ORG's exempt status under IRC 501(c) (3) can not be verified.

**CONCLUSION:**

ORG has failed to meet the reporting requirements under section 6033 and has failed to provide sufficient information to establish that they are operating within the scope of IRC 501(c) (3). Accordingly, ORG's exempt status is revoked effective January 1, 20XX.

Effective January 1, 20XX ORG is responsible to file the Form 1120, Return of Taxable Corporation.



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
Internal Revenue Service  
Reginald Alford  
401 W Peachtree St., Rm 1109  
Atlanta, GA 30308

ORG  
ADDRESS

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Certified Mail - Return Receipt Requested

Dear

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

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

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

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

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

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

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Marsha A. Ramirez  
Director, EO Examinations

Enclosures:  
Publication 892  
Publication 3498  
Report of Examination