



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
TEGE EO Examinations Mail Stop 4920 DAL  
1100 Commerce St.  
Dallas, TX 75242

501.03-00

**Date: April 8, 2011**

Number: **201126034**  
Release Date: 7/1/2011

LEGEND

ORG - Organization name  
XX - Date Address - address

**Taxpayer Identification Number:**  
**Person to Contact:**  
**Employee Identification Number:**  
**Employee Telephone Number:**  
Telephone:  
Fax:

**CERTIFIED MAIL**

Dear \_\_\_\_\_ :

This is a final notice of adverse determination that your exempt status under section 501(c) (3) of the Internal Revenue Code is revoked. Recognition of your exemption under Internal Revenue Code section 501(c)(3) is revoked to January 1, 20XX for the following reason(s):

You have failed to produce documents to establish that you are operated exclusively for exempt purposes within the meaning of Internal Revenue Code section 501(c)(3), and that no part of your net earnings inure to the benefit of private shareholders or individuals. Also, you have failed to keep adequate books and records as required by IRC section 6001 and the regulations there under. In our letters dated November 20, 20XX, February 16, 20XX and October 25, 20XX, we requested information necessary to conduct an examination of your Form 990-PF for the years ending December 31, 20XX and December 31, 20XX. We have not received the requested information. Records obtained from your bank account by means of a summons show expenditures for the benefit of your private shareholders or individuals, which leads to our conclusion that not only have you failed to demonstrate that your net earnings have not inured to the benefit of your private shareholders or individuals, but that in addition some part of your net earnings inured to the benefit of your private shareholders or individuals.

Section 1.6033-2(h)(2) of the Income tax Regulations provides, in part, that every organization which is exempt from tax, shall submit such additional information as may be required by the Internal Revenue Service for the purpose of inquiring into its exempt status. You have not provided the requested information.

You fail to meet the operational requirements for continued exemption under IRC 501(c)(3). You have not provided requested information. We hereby revoke your organization's exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code, effective January 1, 20XX.

Contributions to your organization are no longer deductible effective January 1, 20XX.

Since your exempt status has been revoked, you are required to file Form 1041, U.S. Income Tax Return for Estates & Trusts for all years beginning on or after January 1, 20XX.

Income tax returns for subsequent years are to be filed with the appropriate Service Center identified in the instructions for those returns.

It is determined that your failure to file a written appeal constitutes a failure to exhaust your available administrative remedies. However, 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 Claims Court, or the district court of the United States for the District of Columbia must be filed before the (ninety-first) 91<sup>st</sup> Day after the date this determination was mailed to you. Contact the clerk of the appropriate court for rules for initiating suits for declaratory judgment. To secure a petition form, write to the following address:

Please understand that filing a petition for declaratory judgment under IRC section 7428 will not delay the processing of subsequent income tax returns and assessments of any taxes due.

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 the Taxpayer Advocate assistance or you can contact the Advocate from the site where this issue was determined by writing to:

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The taxpayer Advocate is not able to reverse legal or technically correct tax determinations, nor extend the time fixed by law that you have to file a petition in 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.

This letter should be kept within your permanent records.

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

Sincerely,

Nanette M. Downing  
Director, EO Examinations

Enclosures:  
Publication 892



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

4330 Watt Avenue

EO Group 7982, SA-6209

Sacramento, CA 95821

Date: December 7, 2010

ORG  
ADDRESS

**Tax Period:**

**EIN:**

**Telephone Number:**

**Fax Number:**

Dear \_\_\_\_\_ :

We enclose 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 is necessary. In addition, the report proposes private foundation excise taxes for incurring taxable expenditures pursuant to section 4945 for the years shown above. The report identifies the acts, or failure to acts, on which these adjustments are based and the actions necessary to correct the taxable expenditures.

Taxes under sections 4945(b)(1) of the Internal Revenue Code will be determined as shown in the report of examination if you fail to make correction. Correction is detailed in Form 886-A of the Report of Examination on pages 9-10. We are requesting that you make correction as detailed in Form 886-A of the Report of Examination. Taxes under sections 4945(b)(1) will be avoided if correction is made.

We had previously sent Letter 3600 and Form 872 Consent to Extend Time to Assess Tax to you for the year ended December 31, 20XX on November 29, 20XX. We did not receive signed Form 872 Consent to Extend Time to Assess Tax from you. As matters stand, the earliest statute of limitations expires on May 15, 20XX.

Please review the report. If you want us to consider any facts or arguments, please contact us forthwith, but no later than 30 days from the date on this letter. You may request a closing conference with me and my manager. If you request a closing conference, we request that you agree to extend the statute and have enclosed a new Letter 3600 and Form 872 with this correspondence for the year ended December 31, 20XX.

If we do not hear from you, then we will process this examination to its administrative conclusion by issuing a final adverse determination letter revoking your section 501(c)(3) exempt status and statutory notice of deficiency for the private foundation excise taxes.

If after reviewing our report, you do not wish to further interface with me and my manager, but wish to submit a protest to IRS Appeals for their independent consideration of the issues before the final administrative actions (final revocation letter and notice of deficiency), then

please sign and date both copies of Form 872 and return both copies of Form 872 with the envelope provided. In addition, you must submit to us a written request for Appeals Office consideration within 30 days from the date of this letter to protest our proposed enforcement actions. Your protest should include a statement of the facts, the applicable law, and arguments in support of your position as set forth in page 3 of Publication 892 and page 6 of publication 3498. Signing and returning the Form 872 is prerequisite for consideration by Appeals because of the limited time remaining until the statute expires. If you do sign and return the Form 872 and submit a complete and 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, 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.

As noted earlier, if we do not receive any response from you within 30 days, then we will issue a statutory notice of deficiency based on the tax adjustments shown in the report of examination and issue a final revocation letter. Be advised, that we may also consider your failure to contact us as 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." As such rights in litigation with respect to the revocation may be limited by failure to pursue administrative remedies.

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 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:

I am available 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,

Michael Silva  
EO Revenue Agent

Enclosures:

Letter 3600 and attachments

Publication 594

Publication 892

Publication 3498

Report of Examination

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
<b>Explanation of Items</b>		
<b>Name of Taxpayer</b> ORG	<b>TIN</b> EIN	<b>Year/Period Ended</b> 20XX12 20XX12

**LEGEND**

ORG - Organization name      XX - Date      Address - address      City - city  
 State - state      County - county      TRU-1 & TRU-2 = 1<sup>st</sup> & 2<sup>nd</sup> TRU  
 TRUSTEES - Trustees      Agent - agent      CO-1 through CO-16 = 1<sup>st</sup> through 16<sup>th</sup>  
 COMPANIES

**ISSUE #1: Revocation:**

Does ORG qualify for exemption under Section 501(c)(3) of the Internal Revenue Code?

**ISSUE #2: Taxable Expenditures**

Are expenditures incurred by ORG "taxable expenditures" per section 4945(d)(5) of the Internal Revenue Code and thus, subject to tax per section 4945(a)(1) of the Internal Revenue Code?

**ISSUE #2(a): Taxable Expenditures 2<sup>nd</sup> Tier Tax**

If the expenditures are deemed to be taxable expenditures and the foundation manager refuses to agree to part or all of the correction, would the additional tax per 4945(b)(1) be applicable?

**FACTS:**

ORG, here in after ORG, was recognized as tax exempt under section 501(c)(3) of the Internal Revenue Code by the Internal Revenue Service in February of 20XX. It is not known what ORG's exempt purpose is. ORG lists "none" on Part IX-A *Summary of Direct Charitable Activities* on their Form 990-PF's for the 20XX and 20XX years. ORG also lists "none" on Part IX-B *Summary of Program-Related Investments* on their Form 990-PF's for the 20XX and 20XX years. On ORG's Form 990-PF for 20XX, Line 3 *Grants and contributions paid during the year or approved for future payment* under Part XV Supplementary Information list "none". It is left blank in the 20XX year.

Form 990-PF for both the 20XX and 20XX years lists TRU-1 and TRU-2 as trustees of ORG. The TRUSTEES's and ORG's address is listed as Address, City, State on Form 990-PF for both the 20XX and 20XX years. Part II of Form 990-PF for both 20XX and 20XX list a mortgage as the only liability of ORG. Public records indicate that the TRUSTEES's transferred title of this property was to an entity known as CO-1 in January of 20XX. In October of 20XX title was transferred to CO-2. In November of 20XX title was transferred to the ORG. Public records also indicate that the TRUSTEES's resident address is that of this property during this time to the present.

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Form 990-PF for both the 20XX and 20XX years lists the same telephone number for ORG. On November 20, 20XX this phone number was called and a message was left with a man that answered the phone. This number was again called on December 3, 20XX and a message was left on voicemail. Neither phone call was returned.

Letter 3611 was mailed on November 9, 20XX to ORG along with publication 1 and Form 4564 *Information Document Request*. A response in regards to this letter was received from ORG on December 3, 20XX. In the response, TRU-1 stated that it was his intention to fully comply with the request, but that he could not proceed in any communication with the assigned revenue agent, Agent, until an enclosed public servant questionnaire was completed and returned to him. He requested that the questionnaire be completed and returned within 20 days. The public servant's questionnaire included 24 questions and required it to be signed swearing that the answers were complete and correct. Information requested on the questionnaire included the assigned agent's full legal name and residence address and the question, "will public servant uphold the constitution of the United States?" The questionnaire was not completed or returned to TRU-1.

On December 22, 20XX another letter was received from TRU-1. In this letter he stated that he had all the documents requested and would provide them as soon as he received the completed public servants questionnaire. His letter went on to state that if the questionnaire could not be answered and completed to please state in writing the reasons why and mail copies of identification and delegation of authority or to have Agent's superior write to him with their authority. Once this was completed he would send the requested books and records. No response in regards to this letter was submitted to TRU-1.

On December 28, 20XX a letter was received from TRU-1. This letter was a copy of a letter that TRU-1 had mailed to Agent. In the letter he states that his requests have not been complied with and asks Agent to verify that Agent works in the tax exempt entities division and has the proper delegation of authority from the Secretary of the Treasury to conduct an audit on the foundation. No response in regards to this letter was submitted to TRU-1.

On February 16, 20XX letter 3611 was mailed along with an IDR and publication 1 to the foundation to expand the examination to the 12/31/20XX year. On February 22, 20XX a response in regards to this letter was received from TRU-1. TRU-1 stated that his previous request for a completed public servants questionnaire had not been complied with. Enclosed with this letter was another copy of the public servants questionnaire. He again requests that it be completed so that he can comply with the service's request for records. No response in regards to this letter was submitted to TRU-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>TIN</b> EIN	<b>Year/Period Ended</b> 20XX12 20XX12

On March 18, 20XX a letter was received from TRU-1 stating that since his requests for a completed public servants questionnaire to properly identify the Agent have not been fulfilled, he would be enlisting Agent's employer, the United States Department of Agriculture, to look into this matter. No response in regards to this letter was submitted to TRU-1.

The service issued a summons to ORG's last known bank, CO-3, on July 19, 20XX. Notice of the summons was provided to ORG on the same day. On July 28, 20XX a letter was received from TRU-1 stating that he has received no response to his previous requests. He goes on to say that Agent must cease and desist from auditing ORG until his previous requests are answered. No response in regards to this letter was submitted to TRU-1.

Revenues reported on ORG's Form 990-PF's were as follows:

	20XX	20XX
Line 1, Contributions, gifts, grants, etc., received	\$	\$

Bank Records showed the following deposits in ORG's account:

3/12/20XX	\$	Check written to CO-4
5/7/20XX	\$	Check written to CO-4
7/20/20XX	\$	Cash

Total Deposits for 20XX \$

On the deposited check made out to CO-4 in the amount of \$the memo line stated "Landscaping". No deposits were made in ORG's account for the 20XX year.

Expenses Reported on ORG's Form 990-PF's were as follows:

	20XX	20XX
Legal Fees		\$
Accounting Fees	\$	
Interest	\$	
Taxes	\$	
Depreciation	\$	
Occupancy	\$	
Travel, Conferences, and Meetings	\$	

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Utilities		\$	
Insurance		\$	
Fuel		\$	
Telephone/Telecommunications		\$	
Pest Control		\$	
Organizational Fees – CO-10	\$		
Organizational Fees – IRS		\$	
Bookkeeping Expense			\$
Misc			\$
Totals		\$	

Cancelled checks and bank records show that ORG made the following expenditures:

		20XX	20XX
County		\$	
CO-5		\$	
CO-6	\$		
CO-7 (SMUD)	\$		
CO-8		\$	
CO-16			\$
CO-9	\$		
CO-10	\$		
CO-11		\$	
CO-12			\$
IRS			\$
CO-13		\$	
Cash			\$
CO-14			\$
CO-15		\$	
Totals		\$	\$

On October 25, 20XX a letter was mailed to ORG along with the two Form 4564's that had previously been mailed on November 9, 20XX and February 16, 20XX. The letter also requested that ORG provide a narrative explaining its exempt purpose and exempt activities. On November 1, 20XX a response from TRU-1 was received in response to this letter. He again states that his requests for a completed public servant questionnaire have gone unanswered. Enclosed with the response was a public servant questionnaire.

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ORG did not provide any records or information requested.

## **LAW**

### **Issue #1: Revocation**

Section 501(c)(3) of the Internal Revenue Code exempts from federal income tax organizations organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, educational purposes, to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, provided that no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

Section 6001 of the Internal Revenue Code 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.

Section 6033(a)(1) of the Internal Revenue Code provides, except as provided in Internal Revenue Code section 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.

Section 1.501(c)(3)-1(a)(1) of the regulations provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will not be regarded as operated exclusively for exempt purposes if more than an insubstantial part of its activities is not in furtherance of exempt purposes.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that to meet the operational test, an organization must be engaged in activities furthering "public" purposes rather than private interests. It must not be operated for the benefit of designated individuals or the persons who created it.

Section 1.6001-1(a) of the regulations in conjunction with section 1.6001-1(c) of the regulations provides that every organization exempt from tax under Internal Revenue

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Code section 501(a) and subject to the tax imposed by Internal Revenue Code section 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 Internal Revenue Code section 6033.

Section 1.6001-1(e) of the regulations 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.

Section 1.6033-1(h)(2) of the regulations 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 Internal Revenue Code section 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.

## **Issue #2 and #2a: Taxable Expenditures**

Section 4945(a)(1) of the Internal Revenue Code imposes an initial tax equal to 20% of each taxable expenditure. This tax shall be paid by the private foundation.

Section 4945(b)(1) of the Internal Revenue Code imposes a tax equal to 100% of the amount of the taxable expenditure if the initial tax is imposed under IRC section 4945(a)(1) and if the expenditure is not corrected within the taxable period.

Section 4945(d)(5) of the Internal Revenue Code defines the term "taxable expenditure" as any amount paid or incurred by a private foundation for any purpose other than that specified in section 170(c)(2)(B).

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Section 170(c)(2)(B) of the Internal Revenue Code defines the term "charitable contribution" as a contribution or gift to of for the use of a foundation that is organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes.

Section 4945(i)(1) of the Internal Revenue Code defines "correction" and "correct" as recovering part or all of the expenditure to the extent recovery is possible, and where full recovery is not possible such additional corrective action as is prescribed the Secretary by regulations.

Section 4945(i)(2) defines the term "taxable period" with respect to any taxable expenditure, the period beginning with the date on which the taxable expenditure occurs and ending on the earlier of (A) the date of mailing a notice of deficiency with respect to the tax imposed by subsection (a)(1), or (B) the date on which the tax imposed by subsection (a)(1) is assessed.

**Taxpayer's Position:**

**Issue #1 Revocation:**

Unknown at this time

**Issue #2 and #2a Taxable Expenditures:**

Unknown at this time

**Government's Position:**

**Issue #1 Revocation:**

ORG has not provided any information requested. Since no information has been provided, the service cannot ascertain as to whether or not ORG is operating for a tax exempt purpose as described in Section 501(c)(3) of the Internal Revenue Code. Section 1.501(c)(3)-1(a)(1) of the regulations provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. It is not known that ORG is both organized and operated exclusively for exempt purposes.

ORG's 990-PF's for the 20XX and 20XX years make no mention of activities that may serve an exempt purpose. ORG lists "none" on Part IX-A *Summary of Direct Charitable*

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Activities on their Form 990-PF's for the 20XX and 20XX. ORG also lists "none" on Part IX-B *Summary of Program-Related Investments* on their Form 990-PF's for the 20XX and 20XX years. On ORG's Form 990-PF for 20XX, Line 3 *Grants and contributions paid during the year or approved for future payment* under Part XV Supplementary Information lists "none". It is left blank in the 20XX year.

Expenses listed on ORG's 990-PF's for 20XX and 20XX offer no insight into what exempt purpose ORG may be carrying out. Expenses include utilities, insurance, property tax, telephone/telecommunications, bookkeeping expense, fuel, pest control misc., and interest. The returns list a mortgage as the only liability of ORG. The TRUSTEES's resident address is the same as ORG's. The expenses listed on the return are consistent with personal living expenses. Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that to meet the operational test, an organization must be engaged in activities furthering "public" purposes rather than private interests. It must not be operated for the benefit of designated individuals or the persons who created it. Requested documents and records were not provided and as such, it is not known how the expenses listed on ORG's 990-PF's serve an exempt purpose rather than a private purpose.

Requests for ORG to provide its books and records were sent by the service multiple times. ORG did not comply with any of these requests. TRU-1, trustee of ORG, replied to these requests with a request of his own. He would not provide any information requested until his public servant questionnaire was completed and returned to him. Section 1.6001-1(e) of the regulations provides that the books and records required by this section shall be kept at all times available for inspection by authorized internal revenue officers or employees. Section 1.6033-1(h)(2) of the regulations provides that every organization which has established its right to exemption from tax shall submit additional information as may be required by the district director for the purpose of enabling him to inquire further into its exempt status. ORG did not provide any records requested and as such has not complied with these sections of the regulations.

In Rev. Rul. 59-95, 1959-1 C.B. 627, an exempt organization loses its exempt status for failing to maintain complete records. The ruling illustrates that an organization may lose its exempt status for failing to comply with the provisions of section 6033 of the Internal Revenue code and the regulations that implement it. ORG is not in compliance with section 6033 of the Internal Revenue Code or the regulations that implement it because ORG has not provided the records requested of it. Since ORG did not provide the requested records, it has failed to establish that it is observing the conditions required for the continuation of exempt status. As such, the tax-exempt status of ORG should be revoked.

## Issue #2 and #2a: Taxable Expenditures

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
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ORG has not provided records to demonstrate that it is organized and operating exclusively for charitable purposes. Cancelled checks for the 20XX year totaled \$. Checks were made payable to County, CO-5, CO-8, CO-16, CO-9, CO-10, CO-11, CO-12, IRS, CO-13, and Cash. Most of these payments appear to be for general living expenses and expenses related to the property at Address, City, State. The property is in ORG's name, but public records indicate that the TRUSTEES's reside there. It is not known what exempt purpose, if any, these expenses are related to. ORG did not provide records to explain its exempt purpose or its expenses. Section 4945(d)(5) defines the term "taxable expenditure" as any amount paid or incurred by a private foundation for any purpose other than that specified in section 170(c)(2)(B).

Since ORG has not provided records to demonstrate that it is operating for an exempt purpose, all expenses obtained from its cancelled checks for 20XX are held to be taxable expenditures and thus subject to tax under 4945(a)(1) and 4945(b)(1). The taxes under these sections are calculated as follows:

Section 4945(a)(1) of the Internal Revenue Code imposes an initial tax equal to 20% of each taxable expenditure. This tax shall be paid by the private foundation.

Year	Taxable Expenditures	Tax Rate	Section 4945(a)(1) tax
20XX			

Section 4945(b)(1) of the Internal Revenue Code imposes a tax equal to 100% of the taxable expenditure if the initial tax is imposed under IRC section 4945(a)(1) and if the expenditure is not corrected within the taxable period. This tax shall be paid by ORG. The term "correction" is defined in Section 4945(j)(1) of the Internal Revenue Code and the term "taxable period" is defined in Section 4945(j)(2) of the Internal Revenue Code.

Correction would be achieved if the TRUSTEES Family paid back the foundation for expenses held to be taxable expenditures. The TRUSTEES Family must pay back ORG \$ within the taxable period to achieve correction. This figure is simply the same amount held to be taxable expenditures since these expenditures were not in furtherance of a charitable purpose.

If the foundation fails to make correction, then ORG is liable for Tax under Section 4945(b)(1) of the Internal Revenue Code. Tax under Section 4945(b)(1) will be calculated as follows:

Year	Taxable Expenditures	Tax Rate	Section 4945(b)(1) tax
20XX			

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Name of Taxpayer ORG	TIN EIN	Year/Period Ended 20XX12 20XX12

**CONCLUSION**

**Issue #1: Revocation**

ORG is not organized and operated exclusively for charitable purposes as required by Section 501(c)(3) of the Internal Revenue Code. ORG's tax-exempt status should be revoked.

**Issue #2 and 2a: Taxable Expenditures**

ORG did not show that it was operating for an exempt purpose, and all expenditures were for purposes other than those described in 170(c)(2)(B). All expenditures incurred by ORG are taxable expenditures. Taxes under Section 4945(a)(1) of the Internal Revenue Code shall be imposed on ORG as calculated above. If correction is not made within the taxable period, then taxes under Section 4945(b)(1) of the Internal Revenue Code shall be imposed as calculated above.