



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

TE/GE: EO Examinations

1100 Commerce Street, MC 4920 DAL

Dallas, TX 75242

501.03-00

**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

September 7, 2011

Number: **201148007**

Release Date: 12/2/2011

ORG
Organization name
XX - Date Address - address

Taxpayer Identification Number:
Person to Contact:
Identification Number:
Contact Telephone Number:

**ORG
ADDRESS**

CERTIFIED MAIL

Dear :

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code (the Code). Our favorable determination letter to you dated October 26, 19XX is hereby revoked and you are no longer exempt under section 501(a) of the Code effective June 1, 20XX.

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

You are not operating exclusively for any charitable purpose, educational purpose, or any other exempt purpose. Our examination reveals that you are not engaged primarily in activities which accomplish charitable, educational or other exempt purposes as required by Treas. Reg. 1.501(c)(3)-1(c)(1). Your activities, including your financial transactions, more than insubstantially furthered non-exempt purposes.

Contributions to your organization are no longer deductible under IRC §170 after June 1, 20XX.

You are required to file income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for the tax year ending May 31, 20XX and for all tax years thereafter in accordance with the instructions of the return.

Pursuant to section 509(b) of the Code, your private foundation status continues unless your status as such is terminated under section 507 of the Code. Therefore, in addition

to filing Form 1120, you are required to continue filing Form 990-PF and you are still subject to excise taxes under Chapter 42 of the Code until such time as you terminate your private foundation status under section 507 of the Code.

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 Internal Revenue Code.

If you decide to contest this determination under the declaratory judgment provisions of section 7428 of the Code, a petition to 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 91st Day after the date this determination was mailed to you. Please contact the clerk of the appropriate court for rules regarding filing petitions for declaratory judgments by referring to the enclosed Publication 892. You may write to these courts at the following addresses:

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 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 contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Nanette M. Downing
Director, EO Examinations

Enclosure:
Publication 892



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
TE/GE EO Examinations
1100 Commerce Street
Dallas, TX 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: February 28, 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
Report of Examination

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended May 31, 20XX

LEGEND

ORG - Organization name XX - Date State - state CO-1 - 1st COMPANY
Country - country President - president

Issue:

Whether ORG (aka: ORG) continues to qualify for exemption under Section 501(c)(3) of the Internal Revenue Code.

Facts:

The organization was incorporated in State State on May 27, 19XX as ORG and was organized for the purposes of enhancing cultural and business relations between the Country and Central American nations and the United States. Organizing documents provided by the organization for the examination included a signed and stamped amendment to the original articles of incorporation dated May 14, 20XX indicating that the organization changed its name to ORG. The amendment was filed with the State Department of State on May 15, 20XX, however a copy of the amendment was not provided to the Internal Revenue Service (IRS) and the name remained ORG for the IRS' Records. IRS documents have been input to correct the name change. Amendments are required to be attached to the filed return after the change takes place.

A request for documents to substantiate the exempt purpose of the organization was made on June 22, 20XX and a response by the officer dated July 8, 20XX stated that "There was very little direct activities in the ORG account; all of the expenses was (sic) borne by CO-1". CO-1 is a "for-profit" corporation and the publisher of CO-1, President, is an officer of both the for-profit organization and the exempt organization.

The application for exemption, Form 1023, dated July 15, 19XX stated: "ORG Inc. is dedicated to enhancing cultural and business relations between the Country and Central American nations and the United States. Through the use of educational material, music and art, conferences and seminars, ORG expects to promote the opportunities and advantages of dealing with the United States. The application also stated that the organization planned to produce cultural programs to be performed at theaters and college campuses, develop seminars for young adults to show the need to complete school; hold trade fairs, offer scholarships and develop programs to help immigrant parents deal with the educational needs and cultural changes of their young children as they move from one country to another. The application also stated that funding was expected to be from foundations, corporations and interested individuals.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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A statement provided by the organization with their letter dated July 8, 20XX in response to Form 4564 Document Requests dated April 26 and May 20, 20XX stated *"Throughout the years following, we plan to produce programs to be performed at Theaters and college campuses throughout the United States and Country Counties (sic)".* Regarding funding and Payments – the officer stated *"We expect to fund our operation from Foundations, Corporations and interested individuals. Fee income should be negligible. Currently CO-1 provided the funds to cover programs."*

The only activity of the organization during the examination year was to organize a corporate sponsored Country Multi-National Business Conference for business organizations and individuals from the United States to dialogue and learn more about the unique relationship with regional issues of common interest with the Country Region. The conference was held in November 20XX at a resort in Country and Country and the participants of the conference included many political and business officials from both the United States and the Country region. The conference was paid for through conference fees and sponsorship income that was provided to the for profit corporation "CO-1" CO-1 then made a contribution to ORG, (ORG) to pay for the conference expenses. The sponsorship income received is documented through the CO-1 bank records and financial workpapers provided to explain the travel and conference expenses on the ORG Form 990.

Documents to substantiate the expenses for the business conference were provided. These expenses were paid through the operating account of the for-profit corporation of CO-1 Bank statements were provided for the examined organization of ORG (aka ORG). This information included bank statements for 1 checking account. The only activity in the account was in June 20XX when 3 checks were written totaling \$ and 1 deposit was made in the amount of \$. This activity created an ending balance of \$ that was in place through June 26, 20XX. The organization had no other books and records to substantiate exempt purpose activity.

Law:

Section 1.501(c)(3)-1(a)(1) of the Federal Tax Regulations (regulations) provides that in order to be exempt as an organization described in section 501(c)(3) of the Internal Revenue Code, (IRC) the organization must be one that is both organized and operated exclusively for one or more purposes specified in that section. If an organization fails to meet either the organizational or operational test, it is not exempt.

Section 1.501(c)(3)-1(c) of the regulations specifies that with regard to the primary activities within the operational test, 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 IRC Section

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended May 31, 20XX

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.

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 an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, 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.

Treasury Regulation § 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.

Section 1.6001-1(c) of the regulations requires that an exempt organization must maintain records sufficient to demonstrate that it is entitled to tax exempt status.

Regulation § 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 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 Internal Revenue Code and IRC § 6033.

Section 1.6033-2(h)(2) of the regulations holds that an organization which is exempt from tax, whether or not it is required to file an annual information return, shall submit such additional information as may be required by the Internal Revenue Service for the purpose of inquiring into its exempt status.

Revenue Ruling 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

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended
ORG	EIN	May 31, 20XX

established that it is observing the conditions required for the continuation of exempt status.

Governments Position:

The Organization does not pass the operational test as specified in section 1.501(c)(3)-1(c) of the regulations because the lack of activities is evidence that they were not operated exclusively for one or more charitable purposes. To be considered as operating exclusively for charitable purposes, the Organization would have had to engage primarily in activities which accomplish one or more of such exempt purposes as specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

In addition to the lack of any charitable activity is the lack of any qualified activity at all. The Organization has not provided evidence of conducting meetings or events, creating and/or issuing reports, creation or distribution of publications, or conducting any other activity in furtherance of its exempt purpose. The only activity of record during this time has been the participation of the officers in the business conference that was held in the Country resort.

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.

Taxpayer's position:

The Organization has not provided a position as of this date.

Conclusion:

The organization received exemption under Section 501(c)(3) of the Internal Revenue Code after providing additional requested information about their activities as outlined in the FACTS paragraph above, however they have not provided documents or information to substantiate that they participate in any charitable activities according to those outlined in their initial application or those stated under Internal Revenue Code Section 501(c)(3).

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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It is the Internal Revenue Service's position that the organization failed to meet the organizational and operational requirements. The organizational test concerns the organization's articles of organization or comparable governing document. The operational test concerns the organization's activities. A deficiency in an organization's governing document cannot be cured by the organization's actual operations. Likewise, an organization whose activities are not within the statute will not qualify for exemption by virtue of a well written charter.

A review of the bank records shows that there were no contributions or funds received from anyone other than the for profit corporation CO-1. A statement provided by President (the president of the organization) indicated that there were very little direct activities in the ORG account and that all of the expenses for the activities of ORG were borne by CO-1

The IRC section 501(c)(3) tax exempt status of ORG should be revoked, effective June 1, 20XX, because it is not operated exclusively for tax exempt purposes pursuant to the requirements set forth in section 1.501(c)(3)-1(c)(1) of the regulations.

Form 1120 returns should be filed for the tax periods ending on or after June 1, 20XX.