

Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities Division
Exempt Organizations: Examinations
7850 SW 6th Court, Stop 7954
Plantation, Florida 33324-3202

501.06-00

Number: **201218018**
Release Date: 5/4/2012

Date: November 22, 2011

ORG
ADDRESS

Taxpayer Identification Number:
Form;

Tax Year(s) Ended:
Person to Contact/ID Number:
Contact Numbers:
Telephone:
Fax Number:

Certified Mail – Return Receipt Requested

Dear :

We have enclosed a copy of our report of examination explaining why we believe revocation of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process*, explains 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.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

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

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action*. We will then send you a final letter revoking your exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, 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 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

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,

Director, EO Examinations
Nanette M. Downing

Enclosures:
Publication 892
Publication 3498
Form 6018
Report of Examination
Envelope

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

LEGEND

ORG - Organization name XX - Date State - state President - president
 Secretary - secretary CO-1, CO-2, CO-3 & CO-4 - 1ST, 2ND, 3RD & 4TH COMPANIES

Issues:

Whether any part of the net earnings of the ORG inured to the private benefit of any private shareholder or individual".

Facts:

ORG was incorporated April 04, 19XX as a State non-profit corporation. The organization filed Form 1024, Application for Recognition of Exemption with the Internal Revenue Service, in April, 19XX and was granted tax-exempt status February 9, 19XX under section 501(c)(6). The organization was granted exemption from most federal income taxes. However, donations made to a 501(c)(6) are not tax deductible as charitable contributions.

In the original Application 1024, the organization's stated purpose is to provide a forum to address issues affecting emergency medical technicians (EMT's) and paramedics statewide. Also, the organization purpose is to promote the professional and educational advancements of career EMT's and Paramedics.

The daily operations and control of the organization is the responsible of President, president. The secretary, Secretary, is also activity in the organization.

A filed audit was conducted week of April 25, 20XX based on a referral and to determine if the organization was in compliance with its exempt status.

During the audit agent reviewed the books and records available. Limited bank records were available. Agent later issued two summonses for additional bank statements and cancelled checks for the organization.

In reviewing the bank statements and cancelled checks for 20XX, it was revealed that substantially all of the organization's funds were through fundraising activities. The organization hired a private, for-profit company, CO-1 to operate and solicit non-deductible contributions on behalf of the organization. The organizations account at CO-2 reveals deposits of \$ in 20XX. CO-1 the for-profit business received approximately \$ in fees in 20XX. EO received limited member dues. The professional funder's income is not used to supplement membership support.

The income reported on Form 990 for tax year ending December 31, 20XX.

Revenue Sources	Amounts
Contributions and grants	

Expenses

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

A review of the bank statements and cancelled checks reveals ORG funds were used to pay the expense CO-3, a for-profit business owned by the president. An exempt organization funds received from non-member income is for the benefit of member and cannot use to pay the expenses of a private for-profit business. This is inurement to the president since he owns the private entity.

Also, funds were paid to the president and secretary on regular basis as compensation for services. The organization did not report the compensation and no employment taxes were filed or paid.

President, president is the sole person authorized with access to the organizations bank accounts. The table below shows checks written to cover expenses for CO-3, payments to withdrawals, rent payments (CO-3 benefited from rent paid by ORG) the years at issue: See Exhibit 1.

Payee	Amount	
Secretary		
President		
CO-3 (CO-3)		
CO-4		

Law:

Section 501(c)(6): "The regulation provides that in order for an organization to qualify for an exemption, its activities must be 'directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons,' and it must not 'engage in a regular business of a kind ordinarily carried on for profit.'

IRC 501(c) (6) further allows exemption for professional organizations which is not organized for profit and where no part of the net earnings inures to the benefit of any shareholder or individual.

A 501(c)(6) organization has a common business interest, which the organization promotes. The organization is supported by membership.

EO members of the emergency medical technician (EMT's) paramedics organized to improve emergency medical care and high standards.

To meet the requirements of IRC 501(c) (6) and Reg. 1.501(c) (6)-1, an organization must meet the following characteristics:

1. An association of persons having a common interest and its purpose to promote the common interest.
2. Must be a membership organization and have membership support.
3. Must not be organized for profit.
4. No part of its net earnings may inure to the benefit of any shareholder or individual.

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

5. The activities must be directed to the improvement of business conditions or one or more lines of business.
6. The primary activity is not to perform particular services for individual persons.
7. Its purpose is not to engage in a regular business activity ordinarily carried on by a for profit.

FAPAP fails to meet the characteristics described above. FAPAP is operated with any membership support and no exempt activities are regularly carried on. The organization is not supported by membership dues. FAPAP is primary supported from non-member income received from outside professional fundraiser.

The income is exclusively used by the president and secretary. This constitutes inurement. Inurement alone can disqualify an organization from exemption.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities that accomplish one or more of such exempt purposes. 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. Section 1.501(a)-1(c) of the Income tax Regulations provides "Private shareholder" or individual(s) in section 501 refer to persons having a personal and private interest in the activities of the organization."

Taxpayer's Position

The taxpayer has 30 days to respond to the examination determination if the organization does not agree with it.

Government's Position:

An organization exempt under Section 501(c) (6) of the Internal Revenue Code does not qualify for exempt when inurement is shown to exist . The organization cannot use members and non-member income for the purposes of paying the operating expenses of a for-profit business owned and operated by the president. The expenditure of organization's funds to individuals above the benefits received by general membership constitutes inurement which is prohibited under IRC 501(c) (6).

The audit conducted week of April 25, 20XX, it did not appear that the any membership activities were conducted. The facility is used to operate the president's for profit business. Students attended classes in CPR, first aid and other occupational safety courses put on by the CO-3 (CO-3).

The organization does not hold monthly meetings with members on issues affecting the concerns of emergency medical technicians and paramedics'. The officers conduct lectures and technical training courses to general public interest in careers as EMT and paramedics. These classes are not put on by the organization. The organization does not sponsor any educational training. Nor does it conduct any social or recreational activities such as membership dinners, tournaments, annual party and dance for the members.

Finally the organization receives a substantial portion of its income from non-member sources, namely professional fundraiser. The income received from professional funders has no direct

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

relationship to the organization's activities. The income was primarily used for CO-3 expenses, salaries and other expenses for officers.

If this proposed revocation becomes final, appropriate State officials will be advised of the action in accordance with Internal Revenue Code Section 6104(c) and applicable regulations.

Conclusion:

It is the government's position that the organization failed to meet the requirements for an organization exempt under section 501(c)(6). It was determined that inurement exist because the organization's income is used to pay the expenses for- profit entity owned and operated by the president. Also, the expenditure of funds for personal expenses of the officers constitutes inurnment.

As a result, we have determined that ORG no longer qualify for exemption under section 501(c)(6) as a professional organization.

Therefore, we propose to revoke the organization's exempt status under section 501(c)(6) of the Internal Revenue Code effective January 1, 20XX.