

Internal Revenue Service
Appeals Office
2525 Capitol Street, Suite 201
Fresno, CA 93721

Department of the Treasury

Taxpayer Identification Number:

Person to Contact:

Number: **201246037**
Release Date: 11/16/2012

Tel:
Fax:

Date: August 23, 2012

Tax Period(s) Ended:

Certified Mail

UIL: 501.03-20

Dear :

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code (the "Code"). It is determined that you do not qualify as exempt from Federal income tax under section 501(c)(3) of the Code effective January 1, 2006.

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

Your organization is determined not to be an integrated auxiliary of a church as your organization was established without the knowledge or consent of a church. In addition, organizations exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code are required to operate exclusively for charitable, educational, or other exempt purposes. An organization is not operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Treas. Reg. section 1.501(c)(3)-1(d)(1)(ii). During 2006 and 2007, we have determined that your organization had a more that insubstantial purpose of serving the private interests of your founder and his for-profit business rather than public interests. Accordingly, you have not demonstrated that you operated exclusively for exempt purposes and did not operate for the benefit of private individuals in contravention of the requirements of Treas. Reg. section 1.501(c)(3)-1(d)(1)(ii).

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

You are required to file Federal income tax returns on Forms 1120 for the tax periods stated in the heading of this letter and for all tax years thereafter. File your return with the appropriate Internal Revenue Service Center per the instructions of the return. For further instructions, forms, and information please visit www.irs.gov.

If you were a private foundation as of the effective date of revocation, you are considered to be taxable private foundation until you terminate your private foundation status under section 507 of the Code. In addition to your income tax return, you must also continue to file Form 990-PF by the 15th Day of the fifth month after the end of your annual accounting period.

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 Code.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules for filing petitions for declaratory judgment. To secure a petition form from the United States Tax Court, write

to the United States Tax Court, 400 Second Street, N.W., Washington, D.C. 20217. See also Publication 892.

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 matters that may not have been resolved through normal channels get prompt and proper handling. If you want Taxpayer Advocate assistance, please contact the Taxpayer Advocate for the IRS office that issued this letter. You may call toll-free, 1-877-777-4778, for the Taxpayer Advocate or visit www.irs.gov/advocate for more information.

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

Sincerely Yours,

Appeals Team Manager
Karen A. Skinder

Enclosure: Publication 892



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

MS:4957:DAL:LF

1100 Commerce Street

Dallas, TX 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

JUL 01 2012

ORG
ADDRESS

Taxpayer Identification Number:

Form:

Tax Period(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL -Return Receipt Requested

Dear :

During our examination of the return(s) indicated above, we determined that your organization was not described in Internal Revenue Code section 501 (c) for the tax period(s) listed above and, therefore, it does not qualify for exemption from federal income tax. This letter is not a determination of your exempt status under section 501 for any period other than the tax period(s) listed above.

The attached Report of Examination, Form 886-A, summarizes the facts, the applicable law, and the Service's position regarding the examination of the tax period(s) listed above. You have not agreed with our determination, or signed a Form 6018-A, Consent to Proposed Action, accepting our determination of non-exempt status for the period(s) stated above. You have not agreed to file the required income tax returns. You may appeal your case. 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.

If you request a conference with Appeals, you must submit a written protest within 30 days of the date of this letter. An Appeals officer will review your case. The Appeals Office is independent of the Director, EO Examinations. Most disputes considered by Appeals are resolved informally and promptly.

You may also request that we refer this matter to IRS Headquarters for technical advice as explained in Publication 892. If you do not agree with the conclusions of the technical advice memorandum, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If we do not hear from you within 30 days of the date of this letter, we will issue a Statutory Notice of Deficiency based on the adjustments shown in the enclosed report of examination.

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 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:

In the future, if you believe your organization qualifies for tax-exempt status, and would like to establish its status, you may request a determination from the IRS by filing Form 1023, Application for Recognition of Exemption under Section 501(a), and paying the required user fee.

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
Acting Director, EO Examinations

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

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer ORG		Year/Period Ended December 31, 20XX December 31, 20XX

LEGEND

ORG - Organization name XX - Date State - State CO-1 THROUGH CO-5
- 1ST THROUGH 5TH COMPANIES DIR-1, DIR-2 & DIR-3 - 1ST 2ND & 3RD DIR

Issue

Is ORG an integrated auxiliary of the CO-1 for the tax years ending December 31, 20XX and December 31, 20XX, thereby qualifying the Organization for exemption under IRC 501(c)(3)?

Facts

ORG was established on December 15, 20XX by DIR-1, DIR-2 and DIR-3. In Article II of the Articles of Incorporation, ORG is named as an integrated auxiliary of the CO-1. Article IV states the purpose of the Organization is the following:

“Said corporation is organized exclusively for charitable, religious, education, and scientific purposes, including, but not limited to the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code, or any corresponding provision of any future federal tax code. This corporation will function as an Integrated Auxiliary of CO-1.”

Upon establishment, the Organization did not receive any funding from the CO-1. Additionally, the Organization did not discuss the establishment of ORG with the CO-1. DIR-1 stated during the examination interview that a discussion with the Church was not required for this type of organization. DIR-1 was advised by DIR-3 that an organization could be an integrated auxiliary of a church as long as both the church and the organization had the same religious belief and doctrine. DIR-3 based this reasoning on Treasury Regulation 1.6033(h)(2). Exhibit 1 is a letter dated November 24, 20XX from the CO-1 stating that ORG is not connected with the church. Exhibit 2 is a letter from the CO-2 dated February 20, 20XX thanking ORG for their offer to affiliate with the Church. However, DIR-1 stated in the examination interview on April 1, 20XX that ORG was not officially an integrated auxiliary of the CO-2, because the appropriate paperwork has not been filed with the state of State. Exhibit 3 is the interview conducted by the Examiner on April 1, 20XX.

The Organization was started with a \$ deposit from DIR-1. DIR-1 stated in the interview that the Organization was established to help sales representatives of CO-3. CO-3 is a for-profit entity owned by DIR-1. DIR-1 further stated he needed a way to give money to CO-3 sales representatives that were being evicted from their homes, having health dilemmas, or home renovations for good cases. DIR-1 stated that DIR-3 advised him

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Name of Taxpayer ORG		Year/Period Ended December 31, 20XX December 31, 20XX

the best way to do this was to establish an organization that was an integrated auxiliary of the CO-1.

DIR-1 determines the eligibility of the individuals applying for assistance from CO-4. Criteria include immediacy and degree of needs, such as an impending eviction, or loss of primary income on the part of the recipient. DIR-1 stated that money is given to individuals that he feels has a genuine and pressing concern. He further stated that he did not verify the recipients' story, because he knew the majority of the recipients were CO-3 sales representatives. During the years of operation, DIR-1 stated the Organization helped around ten sales representatives. DIR-1 stated that individuals knew about ORG from e-mails sent to CO-3 sales representatives. He further stated that some individuals knew about the organization through CO-5, which was an online blog that DIR-1 no longer writes.

Additionally, the organization has never filed a Form 990, even though gross receipts exceeded \$ for tax year ending December 31, 20XX. The Organization stated they are not liable for filing a Form 990 return, because they are an integrated auxiliary of a church per Treasury Regulation 1.6033(h)(2). For the tax years ending December 31, 20XX, 20XX and 20XX, gross receipts are significantly lower than \$ which corroborates DIR-1's claim that the organization has been inactive for the better part of the last two years.

Law

IRC 501(c)(3) states that corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

Treasury Regulation 1.501(c)(3)-1(c)(1)

Under Treasury Regulation 1.501(c)(3)-1(c)(1), 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 such exempt purposes specified in section

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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.

In addition, under Treasury Regulation 1.501(c)(3)-1(d)(1)(ii), an organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (i) of this subparagraph unless it serves a public rather than a private interest.

Treasury Regulation 1.6033-2 (h) Integrated auxiliary

- (1) In general. —For purposes of this title, the term integrated auxiliary of a church means an organization that is —
- (i) Described both in sections 501(c)(3) and 509(a)(1), (2), or (3);
 - (ii) Affiliated with a church or a convention or association of churches; and
 - (iii) Internally supported.
- (2) Affiliation. —An organization is affiliated with a church or a convention or association of churches, for purposes of paragraph (h)(1)(ii) of this section, if —
- (i) The organization is covered by a group exemption letter issued under applicable administrative procedures, (such as Rev. Proc. 80-27 (1980-1 C.B. 677); See §601.601(a)(2)(ii)(b)), to a church or a convention or association of churches;
 - (ii) The organization is operated, supervised, or controlled by or in connection with (as defined in §1.509(a)-4) a church or a convention or association of churches; or
 - (iii) Relevant facts and circumstances show that it is so affiliated.
- (3) Facts and circumstances. —For purposes of paragraph (h)(2)(iii) of this section, relevant facts and circumstances that indicate an organization is affiliated with a church or a convention or association of churches include the following factors.
- (i) The organization's enabling instrument (corporate charter, trust instrument, articles of association, constitution or similar document) or by-laws affirm that the organization shares common religious doctrines, principles, disciplines, or practices with a church or a convention or association of churches;
 - (ii) A church or a convention or association of churches has the authority to appoint or remove, or to control the appointment or removal of, at least one of the organization's officers or directors;
 - (iii) The corporate name of the organization indicates an institutional relationship with a church or a convention or association of churches;
 - (iv) The organization reports at least annually on its financial and general operations to a church or a convention or association of churches;
 - (v) An institutional relationship between the organization and a church or a convention or association of churches is affirmed by the church, or convention or association of churches, or a designee thereof; and

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(vi) In the event of dissolution, the organization's assets are required to be distributed to a church or a convention or association of churches, or to an affiliate thereof within the meaning of this paragraph (h).

Governments Position

IRC 501(c)(3) exempts from Federal income tax: corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation (except as otherwise provided in subsection (i)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

ORG is not an exempt organization under IRC 501(c)(3), because the Organization is not organized and operated exclusively for religious or charitable purposes. The Organization was established as an integrated auxiliary of the CO-1 without the church's permission for the primary benefit of CO-3 sales representatives. Helping sales representatives of a for-profit organization owned by DIR-1 is not a charitable activity and only benefits a select group of individuals.

Treasury Regulation 1.6033-2 (h) states that an integrated auxiliary of a church means the organization is described both in sections 501(c)(3) and 509(a)(1), (2), or (3). The organization also is affiliated with a church or a convention or associations of churches and internally supported. ORG does not meet any of the characteristics described above. The Organization is not exempt under 501(c)(3) and based its exemption on being an integrated auxiliary of the CO-1. This Church does not have knowledge that the Organization was associated with them and the Church did not give the Organization permission to establish themselves as an integrated auxiliary. The Organization is not internally supported by the CO-1. The Organization was not given start-up money from the Church.

Additionally, Treasury Regulation 106033-2(h) states in order for an organization to be affiliated with a church, they have to meet the following criteria:

(i) The organization is covered by a group exemption letter

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(ii) The organization is operated, supervised, or controlled by or in connection with (as defined in §1.509(a)-4) a church or a convention or association of churches; or

(iii) Relevant facts and circumstances show that it is so affiliated.

The Organization is not covered by a group exemption letter from the CO-1. In addition, the Organization is not operated, supervised, or controlled by or in connection with the CO-1, because the Church clearly expressed this sentiment in a statement faxed to the IRS on November 24, 20XX (Exhibit 1).

Taxpayer Position

The taxpayer's position is unknown.

Conclusion

Examination findings have determined that ORG does not qualify as an integrated auxiliary of the CO-1, thereby qualifying for exemption under IRC 501(c)(3) for tax years ending December 31, 20XX and 20XX.

Should this revocation be upheld you are required to file Form 1120 for all periods, starting with the effective date of January 1, 20XX whether or not you have taxable income. Contributions to the ORG are not deductible.

Please note that this is not a final report. This report is subject to review by our Mandatory Review staff. They may modify the report as a result of their review. You will receive the final letter from Mandatory Review.