



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Release Number: **201303020**
Release Date: 1/18/2013
Date: October 25, 2012

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

UIL: 501.32-00; 501.32-01; 501.33-00; 501.35-00

Dear :

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(3). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

Since you do not qualify for exemption as an organization described in Code section 501(c)(3), donors may not deduct contributions to you under Code section 170. You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

In accordance with Code section 6104(c), we will notify the appropriate State officials of our determination by sending them a copy of this final letter and the proposed adverse letter. You should contact your State officials if you have any questions about how this determination may affect your State responsibilities and requirements.

Letter 4038 (CG) (11-2005)
Catalog Number 47632S

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at 1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Holly O. Paz
Director, Exempt Organizations
Rulings and Agreements

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: **September 5, 2012**

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

LEGEND:

B = Date
C = State
D = Founder/Director
E = Related organization
F = Related organization (2)
G = City, State
H = Web site

UIL:

501.32-00
501-32-01
501-33-00
501-35-00

Dear _____ :

We have considered your application for recognition of exemption from federal income tax under Internal Revenue Code section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under Code section 501(c)(3). The basis for our conclusion is set forth below.

Issues

- Do your net earnings inure to the benefit of insiders thus precluding exemption under section 501(c)(3) of the Code?
Yes, for the reasons stated below.
- Do your operations serve the private benefit of for-profit enterprises which would preclude exemption under section 501(c)(3) of the Code?
Yes, for the reasons stated below.
- Have you failed to demonstrate that you meet the operational test by operating exclusively for an exempt purpose under section 501(c)(3) of the Code?
Yes, for the reasons stated below.

Letter 4036(CG) (11-2005)
Catalog Number 47630W

- Do you qualify for tax exemption under section 501(c)(3) of the Code?
No, for the reasons stated below.

Facts

You were incorporated by D on B as a non-profit corporation under C law. Your headquarters will be located in downtown G.

D, your founder, sole incorporator and president indicates he has worked on forming a number of non-profit organizations. D named twelve other entities he has formed. Most of these entities have not received tax-exempt status. D states one entity, E, which was described as the parent, was denied exemption and is now a for-profit entity. Two others are also for-profit organizations. All these entities use the same website D has created. The website also is referred to as E. In addition to describing you, the website, E, describes a variety of entities including a tax consulting service, a radio talk show devoted to tax discussion, a healthcare consulting service, a government watchdog organization, and an organization soliciting funds for a particular disease. Most of D's ideas involved gaining some referrals from the Internal Revenue Service, friends and even some D "dreamed up". D indicates he is a former IRS employee and stated his former IRS manager challenged him to "take a free and necessary service performed for the taxpayer and turn it into a profitable business."

Purposes stated in Bylaws

- To provide a means for initially non-profits and other government run operations to figure out which public sector jobs can be changed to private sector operations.
- To provide educational programs and support for many of these organizations to avoid getting themselves in these positions.
- To provide access to professional and personal resource.
- To create more opportunities and decrease debt burdens.
- To provide a network of feedback on issues of concern to users and the Board of Directors.
- To provide a readily accessible mechanism for regional program development.
- To privatize what government does and do a better job costing less in tax dollars.
- To even potentially provide government another way to finance the current health care crisis.

D has stated that the same Bylaws were used for other entities he created.

Governance

You have five board members, one of which is D. Your board members were selected by D because D has known them for a couple of years. Initially D was the only member of your governing body, and your application stated "right now there is only one person who is in the position to be making all the decisions." D recruited four additional members, described the individuals as neighbors and indicated he worked with one "at another place of employment." When resumes of the board members were requested, only 3 were reluctantly supplied. You provided no other indication of involvement of the new board members in your operation.

Income/Expenses

You plan to raise funds through grants, donations and fundraising. Your projected annual income for your first year was more than \$1,200,000, your second year more than \$4,300,000 and your third year more than \$3,900,000. A substantial part of your revenue will be in the form of grants. You have recruited a grant writer to help raise funds. You plan to hire a minimum of 17 employees. You submitted position descriptions for your various employees which were obtained from other organizations. Your largest expense is salaries and wages. Nevertheless, you project a significant profit each year. When asked about your financial statements, specifically the excess revenues over expenses, you stated the figures are all estimates and were "very similar as those when you applied for" exemption for another entity. When asked about expenses for the benefit of members, D indicated as an example, fees paid for D's attendance at networking events. In explaining your financial statements, D indicated information may have been confused with information that should have been associated with the application of another organization. You indicated referrals would be a source of funding, but you did not provide a clear explanation of this when requested. You will accept donor advice as to how donated funds are spent. You stated that the donor will not exercise significant control over his/her donations. However, things may change as time goes on. You will operate a website providing information to the public regarding your projects.

Activities

You will conduct research to take services currently provided by the government and turn them into for-profit businesses in the private sector or promote the establishment of independent, non-profit organizations to provide them. You will engage in these activities once your application is approved. Your activities will be done either based on referrals or what your research team has "dreamed up." The ideas will then be transferred over to a team to determine if the idea is possible by "analyzing what a new service that would take on this hypothetical firm would demand." The goal is to create more private sector jobs and decrease the burdens on taxpayers. You plan to offer a public services scholarship to students pursuing a career in public services, as well as a small business scholarship to transform aspiring student entrepreneurs into founders. You estimate 25% of your time will be fundraising and the remaining 75% devoted to administrative work and day to day activities.

You indicated that you would engage in a number of activities. You will publish, own or have rights in music, literature, tapes, artworks, choreography, scientific discoveries or other intellectual property. The only publishing thus far has been on E website. You will have written contracts for individuals or organizations to raise funds for you. However, none have been completed. You will fundraise for other organizations. You will maintain separate accounts for contributors. You will provide goods or services to individuals or organizations and may make grants to organizations. You will not limit the provisions of goods or services to any specific individual or group. This includes not limiting the goods or services to a family member or an individual with a business relationship. You will make contributions to other organizations, including those created by D and discussed on the website, E. You will provide scholarships.

E, the website, states in its "Acceptance of Terms and Conditions" that "It is a collection of online resources, including ads, forums and various e-mails." According to the website you were "initially designed as a multi-medium to back up the web site and work with the radio talk show." Your goal is to research the findings of similar organizations to see which can be turned into profitable ventures. E is also a for-profit entity that is also operated by D. You are designed to continue where E had started by educating its audiences on the importance of reporting every

source of income ethically. You share a website, H, with E, the for-profit entity. Your program will be based on a process. The process begins with a suggestion received from the public or through your own research. Then the suggestion is evaluated as to what is needed to turn the public service into a taxable entity. Evaluation is performed utilizing research by your staff as well as research publicly available performed by others. The final stage will be spinning off the "entrepreneurship" into the private sector. You anticipate that the spin-off businesses will be similar to those created by colleges and universities.

Additional information on your application for exemption was requested five times. Your responses did not include the requested detailed information regarding your activities and operations. Your descriptions were consistently vague. You continually stated that your activities would begin once your application for exemption was approved. Also, when you did provide yes or no responses, you followed by stating that things may change as time goes on. Your employee job descriptions and Bylaws were only examples from other organizations. Regarding your budgets, you stated that the figures you are using are all guesses and you assume there will be disbursements in the future. You provided an example of your plans by citing the success of for-profit package delivery services as alternatives to the United States Postal Service. In describing the radio talk show you explained it will air discussions between taxpayers and IRS contact representatives. By broadcasting these conversations, the listening audience would grow in size. D later stated he "was forced to change it to where there would be actors, instead of actual phone calls conducted by IRS contact reps and taxpayers." With respect to your scholarship program, you stated that the decisions regarding number of grants awarded, amount of grants, procedures or how the program is administered should be done by a committee. However, no such committee exists. You have not submitted any research or educational materials that will be used in your programs. Finally, you continually referenced programs and activities that are conducted by other organizations with which D is involved.

Law

Section 501(a) of the Code provides that an organization described in section 501(c)(3) shall be exempt from taxation.

Section 501(c)(3) of the Code provides that corporations may be exempted from tax if they are organized and operated exclusively for charitable or educational purposes and no part of their net earnings inures to the benefit of any private shareholder or individual.

Section 1.501(a)-1(a)(2) of the Income Tax Regulations ("regulations") states that an organization is not exempt from tax merely because it is not organized and operated for profit. In order to establish its exemption, it is necessary that every such organization claiming exemption file an application form with the Internal Revenue Service.

Section 1.501(a)-1(a)(3) of the regulations states that an organization claiming exemption under section 501(a) and described in any paragraph of section 501(c) (other than section 501(c)(1)) shall file the form of application prescribed by the Commissioner and shall include thereon such information as required by such form and the instructions issued thereto.

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), 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.

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 specified in section 501(c)(3).

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized and operated exclusively for charitable purposes unless it serves a public rather than a private interest. To meet this requirement that it serve a public purpose, an organization must establish that it is not organized or operated for the benefit of private interests.

Section 1.501(c)(3)-1(d)(2) of the regulations states that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense. The term includes but is not limited to activities such as relief of the poor and distressed or of the underprivileged, advancement of education, lessening the burdens of Government, and the promotion of social welfare. Promoting social welfare also includes lessening neighborhood tensions, eliminating prejudice and discrimination, defending human and civil rights secured by law, or combating community deterioration.

Section 1.501(c)(3)-1(d)(3)(i) of the regulations provides that the term "educational," as used in section 501(c)(3) of the Code, relates to:

- (a) The instruction or training of the individual for the purpose of improving or developing his capabilities; or
- (b) The instruction of the public on subjects useful to the individual and beneficial to the community.

Rev. Rul. 66-104, 1966-1 C.B. 135 – A nonprofit organization which makes funds available to authors and editors for preparing teaching materials and writing textbooks, and, under the terms of the contract with the publisher, receives royalties from sales of the published materials and then shares them with those individuals, does not qualify for exemption from federal income tax as a charitable, educational or literary organization under section 501 (c)(3) of the Internal Revenue Code of 1954. Although educational interests are served by the publication of better teaching materials, the facts in this case show only an enterprise conducted in an essentially commercial manner, in which all the participants expect to receive a monetary return. Accordingly, it is held that the instant organization does not qualify for exemption from federal income tax as an organization described in section 501 (c)(3) of the Code.

Rev. Rul. 68-16, 1968-1 C.B. 246 - A fund set up as an adjunct to a school of business administration that is exempt from federal income tax for the sole purpose of providing business students with instruction and experience in managing securities may be exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954. The fund is used by the students as an adjunct to their course of instruction to obtain knowledge and experience in security portfolio management. Thus, the fund contributes to their education. Accordingly, the organization is exempt from federal income tax under section 501(c)(3) of the Code.

Rev. Rul. 69-441 - By aiding low-income individuals and families who have financial problems and by providing, without charge, counseling and a means for the orderly discharge of

indebtedness, the organization is relieving the poor and distressed. Furthermore, by providing the public with information on budgeting, buying practices, and the sound use of consumer credit, the organization is instructing the public on subjects useful to the individual and beneficial to the community. Accordingly, the organization is exempt from Federal income tax under section 501(c)(3) of the Code. (Compare Revenue Ruling 65-299, C.B. 1965-2, 165, which holds that a nonprofit organization formed to advise, counsel, and assist individuals in solving their financial difficulties by budgeting their income and expenses and effecting an orderly program for the payment of their obligations qualifies for exemption from Federal income tax under section 501(c)(4) of the Code (rather than under section 501(c)(3)). In that case the organization was not engaged in any educational activities, and the families or individuals eligible for assistance were not limited to those who were in need of such assistance as proper recipients of charity.)

Rev. Proc. 2012-9, 2012-1 C. B. 283, Section 3.08 provides that an organization seeking recognition of exemption under section 501(c)(3) must submit a completed Form 1023. A substantially completed application, including a letter application, is one that includes a detailed narrative statement of proposed activities and a narrative description of contemplated expenditures.

Rev. Proc. 2012-9, 2012-1 C.B. 283, Section 4.03 provides that exempt status may be recognized in advance of an organization's operations if the proposed activities are described in sufficient detail to permit a conclusion that the organization will clearly meet the particular requirements for exemption pursuant to the section of the Internal Revenue Code under which exemption is claimed. An organization must fully describe all of the activities in which it expects to engage, including the standards, criteria, procedures or other means adopted or planned for carrying out the activities, the anticipated sources of receipts, and the nature of contemplated expenditures. A mere restatement of exempt purposes or a statement that proposed activities will be in furtherance of such purposes will not satisfy this requirement.

Charleston Chair Company v. United States, 203 F.Supp. 126 (E.D.S.C. 1962), found that use of a large part of a foundation's funds for a scholarship grant to the son of a foundation trustee resulted in inurement of earnings.

Est of Hawaii v. Commissioner, 71 T.C. 1067 (1979), described an organization engaged in activities relating to "est" programs involving training, seminars, lectures, etc., in areas of intrapersonal awareness and communication, which were conducted under licensing arrangements with a for-profit corporation, was held not to be exempt under IRC 501(c)(3). The court held that although the organization was educational in nature, it served commercial purposes of the for-profit corporation and, therefore, was not operated exclusively for exempt purposes.

John Marshall Law School and John Marshall University v. United States, 81-2 USTC 9514(Ct.Cl. 1981), described a private law school operated by two brothers. The Court found that a series of interest-free, unsecured loans used by the brothers to purchase a home and furnish it, scholarships for their children and other personal expenses, including travel, health spa membership and entertainment resulted in inurement to individuals.

La Verdad v. Commissioner, 82 T.C. 215 (1984), an organization was organized to provide education and charity, but failed to provide sufficient details regarding its proposed operations.

The court held that it failed to prove that it would operate exclusively for exempt purposes under section 501(c)(3) of the Code.

Easter House v. U.S., 12 Cl. Ct. 476, 486 (1987), aff'd, 846 F. 2d 78 (Fed. Cir.) cert. denied, 488 U.S. 907, 109 S. Ct. 257, 102 L. Ed. 2d 246 (1988), the court found an organization that operated an adoption agency was not exempt under section 501(c)(3) of the Code because a substantial purpose of the agency was a nonexempt commercial purpose. The court concluded that the organization did not qualify for exemption under section 501(c)(3) because its primary activity was placing children for adoption in a manner indistinguishable from that of a commercial adoption agency. The court rejected the organization's argument that the adoption services merely complemented the health related services to unwed mothers and their children. Rather, the court found that the health-related services were merely incident to the organization's operation of an adoption service, which, in and of itself, did not serve an exempt purpose. The organization's sole source of support was the fees it charged adoptive parents, rather than contributions from the public. The court also found that the organization competed with for-profit adoption agencies, engaged in substantial advertising, and accumulated substantial profits. Accordingly, the court found that the "business purpose, and not the advancement of educational and charitable activities purpose, of plaintiff's adoption service is its primary goal" and held that the organization was not operated exclusively for purposes described in section 501(c)(3).

Salvation Navy v. Commissioner, T.C.M. 2002-275 (2002), the Tax Court found that one of the reasons why the organization did not qualify for exemption from federal income tax was because it could not prove that it was not organized to serve the private interests of its founder.

Peoples Prize v. Commissioner, T.C. Memo 2004-12 (2004). Petitioner has, for the most part, provided only generalizations in response to repeated requests by respondent for more detail on prospective activities. Such generalizations do not satisfy us that petitioner qualifies for the exemption.

New Dynamics Foundation v. United States, 70 Fed. Cl. 782 (2006), noted exemption from federal income tax is not a right; it is a strictly interpreted matter of legislative grace, and the burden rests with the applicant to prove that it is entitled to exempt status. The organization failed to establish an administrative record that showed it was operated for exclusively exempt purposes. The court found instead that it was part of a tax avoidance scheme and primarily provided private benefits.

Application of Law

Inurement

Section 501(c)(3) of the Code provides that corporations may be exempted from tax if they are organized and operated exclusively for charitable or educational purposes and no part of their net earnings inures to the benefit of any private shareholder or individual. You do not meet the requirements of IRC section 501(c)(3) or section 1.501(c)(3)-1(c)(1) of the regulations because you have not established your operations will not inure to the benefit of your founder, D. You are similar to the organizations in Charleston Chair Company V. United States and John Marshall Law School and John Marshall University v. United States in that your operations will benefit D

and D's for-profit enterprise. The facts clearly show D substantially controls all operations and makes all decisions. After several requests you submitted resumes for three board members. However, you provided no evidence anyone other than D was involved in your operations or decisions. D formed you as well as several other entities. Member benefit is described as networking events D attends. Referrals are described as referrals D makes. Your primary method of attracting clients or marketing your products and services is through the E website, which is owned by D's for-profit company. Similar to the organization subject to the ruling in Salvation Navy v. Commissioner, you have not demonstrated that you were not organized to serve the private interests of your founder. Your purpose includes creating taxable entities, and the examples you give include entities created by D. Further, you state relatives and friends of board members may receive scholarships and/or other benefits.

Private Benefit

You do not meet the requirements of section 1.501(c)(3)-1(d)(1)(ii) of the regulations, and you are similar to the organizations in Est of Hawaii v. Commissioner, New Dynamics Foundation v. United States and Easter House v. U.S. because you have not demonstrated that you are organized and operated to serve a public rather than a private interest. More than an insubstantial part of your operations will result in benefit to clients, subscribers and businesses you form or assist. You consistently stated your purpose is to privatize government services and create profitable businesses. Therefore your primary purpose is to promote the private interests of for-profit enterprises rather than a public interest.

Failure to Demonstrate an Exempt Purpose – Operational Test

Section 501(c)(3) of the Code sets forth two main tests for an organization to be recognized as exempt. As noted in section 1.501(c)(3)-1(a)(1) of the regulations, an organization must be both organized and operated exclusively for purposes described in section 501(c)(3).

You did not submit information sufficient to conclude that you are organized and operated exclusively for charitable purposes as specified in section 501(c)(3) of the Code. In addition to showing that it is both organized and operated exclusively for one or more of the purposes described in section 501(c)(3) of the Code, to be exempt an organization must provide a substantially complete application as described in sections 1.501-1(a)(2) and 1.501-1(a)(3) of the regulations.

As noted in New Dynamics Foundation, supra, exemption from federal income tax is not a right; it is a strictly interpreted matter of legislative grace, and the burden rests with the applicant to prove that it is entitled to exempt status. Your application did include some information required by the Form 1023 and its instructions such as copies of bylaws and organizing document. However, your application did not meet the requirements of sections 1.501(a)-(a)(2) and 1.501(a)-(a)(3) of the regulations. Your activity description did not include detailed information regarding your program. Despite several requests for specific information about your activities, you have failed to provide an adequate description. You failed to provide complete information regarding your planned public service scholarship and instead stated many decisions would be made by committee. You provided virtually no information regarding your plans to develop private sector businesses from current government provided services and failed to establish how privatizing government jobs furthers a section 501(c)(3) purpose. In addition, you continually referenced activities conducted by other organizations or D in D's individual capacity.

You failed to distinguish your operations from other entities, including related for-profit entities. You repeatedly referred to the E website as a means of describing your activities. The E website describes numerous entities, many of which are for-profit. Your Bylaws, financial statements and other information was the same as information D used for other entities. Your response to our requests for information about your activities often discussed the activities of D's other entities. In fact, the information was so intertwined one organization could not easily be distinguished from another. Almost all activities you describe are typically conducted by commercial businesses. This includes the use of a website to market services and products, assisting individuals in creating profitable businesses and the provision of consulting services. Similar to the organizations subject to the rulings in Est of Hawaii v. Commissioner and Easter House v. U.S. your activities serve a substantial nonexempt commercial purpose. Also, when you did provide some information, you qualified the information by stating that things may change in the future. Simply stating that you plan to provide such programs is not sufficient to demonstrate how any of your programs will be operated. Your application does not satisfy the requirements to describe proposed activities in sufficient detail to permit a conclusion that the organization will clearly meet the particular requirements for exemption pursuant to the section of the Internal Revenue Code under which exemption is claimed, as specified in sections 1.501(a)-1(a)(2) and 1.501(a)-1(a)(3) of the regulations and sections 3.08 and 4.03 of Revenue Procedure 2012-9, 2012-1 C.B. 283.

An organization must also satisfy the organizational and operational tests described in the regulations to qualify for recognition as an organization exempt from federal taxation. In order to meet the organizational test, you must have a valid purpose clause that limits the organization's purposes to one or more exempt purposes and does not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities that in themselves are not in furtherance of one or more exempt purposes. You meet the organizational test. However, you have not provided enough information to demonstrate that you operate exclusively for charitable or educational purposes. As required by section 1.501(c)(3)-1(d)(1)(ii) of the regulations an applicant must establish an administrative record showing that it operates primarily to accomplish an exempt purpose(s) described in section 501(c)(3) of the Code, and that it is not organized or operated for the benefit of private interests.

You do not currently conduct any activities. You do not intend to commence your other operations until you are recognized as an exempt organization. The research and business development information submitted is not sufficient and includes multiple inconsistencies and references to other entities. For example, you described an educational program of educating the public about federal income tax rules and regulations. However, you later stated that the program is actually conducted by F. You provided many position descriptions and a budget that you later stated were either guesses or obtained from other organizations as examples. The Service may recognize exempt status in advance of operations if an applicant describes its proposed operations in sufficient detail to permit a conclusion that it will clearly meet the requirements for exemption in accordance with section 501(c)(3) of the Code. However, as described in La Verdad v. Commissioner, a mere restatement of exempt purposes or a statement that proposed activities will be in furtherance of such purposes will not satisfy this requirement.

Your Activities Are Not Educational or Charitable

Based on the information you provided, you have failed to establish that your operations will be exclusively educational or charitable. The regulations, in section 1.501(c)(3)-1(d)(3)(i), define educational as the instruction or training of the individual for the purpose of improving or developing his capabilities; or the instruction of the public on subjects useful to the individual and beneficial to the community. You are distinguishable from the organizations in Rev. Rul. 68-16 and Rev. Rul. 69-441 because you are not conducting an educational program. Although you stated that you plan to conduct research and evaluate what is needed to turn a public service into a taxable entity you have not provided any evidence of an educational program, other than provision for a proposed public service scholarship program. Your primary activity will be researching and evaluating existing government services for their potential as private sector businesses. Such an activity does not provide instruction or training for the purpose of improving or developing an individual's capabilities within the meaning of section 1.501(c)(3)-1(d)(3)(i) of the regulations. Nor do you provide any instruction of the public. You do plan to offer a scholarship program for students pursuing a career in public service. However, the program has not been described in detail, and it is not operational at this time. Unlike the organizations in Rev. Rul. 68-16 *supra*, and Rev. Rul. 69-441, *supra*, you do not offer programs that are structured primarily to improve an individual's understanding of their problems or their skills in solving them nor do you provide instructions to students. You provided no evidence that your research will be published and made available to the public. You are similar to the organization in Rev. Rul. 66-104, *supra*, in that you have not shown that you will not be operated in a commercial manner, even if educational interests might possibly be served by the publication of your research results.

You have not published any research to date, nor have you begun your scholarship program. Your plans to create for-profit entities to provide needed services to the public that are currently provided by governmental units are not educational. You do not operate a substantive on-going educational program. You did not explain your research methodology. You did not clarify the writings and findings or explain exactly how you will use the information. You did not define your role in privatizing jobs. You indicated taxable entities would be created. You do not dedicate any revenue to activities involving educational programs. Therefore, you failed to establish that your research activities provide instruction or training "useful to the individual and beneficial to the community" within the meaning of section 1.501(c)(3)-1(d)(3)(i) of the regulations. You provided no evidence that you intend to establish a method of publishing the results of your research. Thus, your activities are not educational within the meaning of section 501(c)(3).

Your time and resources are devoted to researching the potential for converting existing government services into private, for-profit entities. The creation of for-profit entities to provide services that are currently the domain of a governmental unit does not provide relief to the poor and distressed within the meaning of section 1.501(c)(3)-1(d)(2) of the regulations or serve any other purpose recognized as charitable. Not only do your activities not further an exempt purpose, as recognized by statute or by case law, they do further a substantial nonexempt commercial purpose. Conducting research regarding how to convert existing government services into profitable private companies and then "spinning off" the newly created entities does not further educational or charitable purposes. Rather, you are operating like a commercial enterprise seeking to maximize profits, not as a charitable or educational organization seeking to serve the public. While your budgets include money for a public service scholarship, your primary activity is not educational or charitable. Your primary goal is the creation of for-profit

entities. Therefore, as stated in Easter House v. U.S., your business purpose, and not the advancement of educational and charitable purposes, is your primary goal. Thus, your activities are not charitable within the meaning of section 501(c)(3).

You are similar to the organization in Peoples Prize v. Commissioner, supra. In response to repeated requests for more detail regarding your proposed activities, either you failed to provide the requested information or the submitted information contradicted previously submitted information. You failed to demonstrate that your activities are or will be conducted in a charitable or educational manner as required. You have not submitted copies of any educational materials, agendas, curriculums, schedule of classes or instructor information. You simply stated that you will not begin offering most of your programs or develop solicitation, marketing and educational materials until you are approved as tax-exempt. More than an insubstantial part of your activities are in furtherance of a nonexempt purpose, in contravention of section 1.501(c)(3)-1(c)(1) of the regulations. Therefore, you are not operated for an exempt purpose.

Conclusion

Based on the facts and applicable law, you do not qualify for exemption under section 501(c)(3) of the Code because: 1. You have not established your operations will not inure to the benefit of D; 2. More than an insubstantial part of your operations will result in private benefit to your clients, subscribers and businesses you form or assist; and 3. You have not provided sufficient evidence to demonstrate that you are organized and operated exclusively for exempt purposes within the meaning of section 501(c)(3) of the Code. An organization that fails to provide a substantially completed application and fails to meet the organizational or operational tests described in the regulations is not exempt. Therefore, you do not qualify for exemption under IRC section 501(c)(3).

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter. We will consider your statement and decide if the information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*.

Types of information that should be included in your appeal can be found on page 2 of Publication 892. These items include:

1. The organization's name, address, and employer identification number;
2. A statement that the organization wants to appeal the determination;
3. The date and symbols on the determination letter;
4. A statement of facts supporting the organization's position in any contested factual issue;
5. A statement outlining the law or other authority the organization is relying on; and
6. A statement as to whether a hearing is desired.

The statement of facts (item 4) must be declared true under penalties of perjury. This may be done by adding to the appeal the following signed declaration:

“Under penalties of perjury, I declare that I have examined the statement of facts presented in this appeal and in any accompanying schedules and statements and, to the best of my knowledge and belief, they are true, correct, and complete.”

Your appeal will be considered incomplete without this statement.

If an organization's representative submits the appeal, a substitute declaration must be included stating that the representative prepared the appeal and accompanying documents; and whether the representative knows personally that the statements of facts contained in the appeal and accompanying documents are true and correct.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. If you want representation during the appeal process, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. You can find more information about representation in Publication 947, *Practice Before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications.

If you do not file a protest within 30 days, you will not be able to file a suit for declaratory judgment in court because the Internal Revenue Service (IRS) will consider the failure to appeal as a failure to exhaust available administrative remedies. Code section 7428(b)(2) provides, in part, that a declaratory judgment or decree shall not be issued in any proceeding unless the Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted all of the administrative remedies available to it within the IRS.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848, and any supporting documents to the applicable address:

Mail to:

Internal Revenue Service
EO Determinations Quality Assurance
Room 7-008
P.O. Box 2508
Cincinnati, OH 45201

Deliver to:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Room 7-008
Cincinnati, OH 45202

You may fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

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

Sincerely,

Holly O. Paz
Director, Exempt Organizations
Rulings and Agreements

Enclosure, Publication 892