



DEPARTMENT OF THE TREASURY

Internal Revenue Service
TE/GE EO Examinations
1100 Commerce Street
Dallas, TX 75424

501.03-00

**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

January 23, 2012

Number: **201318009**
Release Date: 5/3/2013

LEGEND

ORG = Organization name XX = Date Address = address

ORG
ADDRESS

Person to Contact:
Identification Number:
Contact Telephone Number:
In Reply Refer to: TE/GE Review Staff
EIN:

CERTIFIED MAIL - RETURN RECEIPT

**LAST DATE FOR FILING A PETITION
WITH THE TAX COURT: April 23, 20XX**

Dear :

This is a Final Adverse Determination Letter as to your exempt status under section 501(c)(3) of the Internal Revenue Code. Your exemption from Federal income tax under section 501(c)(3) of the code is hereby revoked effective January 1, 20XX. You have agreed to this change per signing of the Form 6018, dated May 14, 20XX.

Our adverse determination was made for the following reasons:

Inurement and/or private benefit of an IRC Section 501(c)(3)'s assets in any form or amount is prohibited. ORG has not been operating exclusively for exempt purposes within the meaning of Internal Revenue Code section 501(c)(3). ORG also is not a charitable organization within the meaning of Treasury Regulations section 1.501(c)(3)-1(d). You are not an organization which operates exclusively for one or more of the exempt purposes which would qualify it as an exempt organization. You operate substantially for a non-exempt purpose; the providing of private rather than public benefits.

You failed to meet the requirements of IRC section 501(c)(3) and Treas. Reg. section 1.501(c)(3)-1(d) in that you failed to establish that you were operated exclusively for an exempt

1100 Commerce Street Dallas, TX 75424

purpose. Rather, you were operated for a substantial non-exempt purpose; providing debt negotiation and debt settlement services.

Contributions to your organization are no longer deductible under section 170 of the Internal Revenue Code. You are required to file Federal income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for the year ending December 31, 20XX, and for all years thereafter.

Processing of income tax returns and assessment 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 in court, you must initiate a suit for declaratory judgment in the United States Tax Court, the United States Claim Court or the District Court of the United States for the District of Columbia before the 91st day after the date this determination was mailed to you. Contact the clerk of the appropriate court for the rules for initiating suits for declaratory judgment.

You also have the right to contact the office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers.

You can call and ask for Taxpayer Advocate assistance. Or you can contact the Taxpayer Advocate from the site where the tax deficiency was determined by calling or writing:

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

We will notify the appropriate State Officials of this action, as required by section 6104(c) of the Internal Revenue Code.

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

Sincerely yours,

Renee B. Wells
Acting, Director EO
Examinations

Attached:
Pub 892 and 3498

1100 Commerce Street Dallas, TX 75242

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit #1
Name of Taxpayer ORG EIN:		Year/Period Ended 12/31/20XX

LEGEND

ORG = Organization name XX = Date XYZ = State CEO = CEO

ISSUES:

Whether an organization that has been inactive for several years, has ceased all charitable activities is compliant with existing 501(c)(4) regulations?

FACTS:

On May 14, 20XX CEO executive director, said the E/O has no assets and has ceased all activities because he was unable to make any money. CEO said that he was planning to dissolve but had not begun the process, although a letter has been sent to the XYZ attorney General's Office. I asked CEO if he would agree to revocation, he said that he would. I further explained to the taxpayer that he would be required to file "for-profit" Form 1120 Corporate Income Tax returns for the audited tax year 20XX and a final return for tax year 20XX. On May 20, 20XX I received the appropriate signed agreed revocation Forms 6018-A, as well as Forms 1120 for tax year 20XX and a final return for tax year 20XX.

LAW:

Section 501 of the Code provides for the exemption from federal income tax of corporations organized and operated exclusively for promotion of Social Welfare, provided that no part of the net earnings inures to the benefit of any private shareholder or individual. See § 1.501(c)(3)-1(d)(2) and in § 1.501(c)(4)-1(a)(1)&(2) of the Income Tax Regulation

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations defines the term "charitable" as used in § 501(c)(3) as including the relief of the poor and distressed or of the underprivileged, and the promotion of social welfare by organizations designed to lessen neighborhood tensions, to eliminate prejudice and discrimination, or to combat community deterioration. The term "charitable" also includes the advancement of education.

Section 1.501(c)(4)-1(a)(2) of the Income Tax Regulations provides that an organization operates exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterment and social improvements.

A "social welfare" organization will qualify for exemption as charitable organization if it falls within the definition of "charitable" set for in paragraph (d)(2) of § 1.501(c)(3)-1 (defined above) and is not an "action" organization as set forth in paragraph(c)(3) of § 1.501(c)(3)-1 (defined below).

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Section 1.501(c)(3)-1(c)(3) of the Income Tax Regulations outlines an "action organization is not operated exclusively for exempt purposes if it is an action organization defined in subdivisions (ii); (iii) or (iv) of this subparagraph.

(ii) an organization is an action organization if a substantial part of its activities is attempting to influence legislation by propaganda or otherwise.

(iii) An organization is an "action" organization if it participates or intervenes, directly or indirectly, in any political campaign on behalf of or in opposition to any political candidate for public office.

(iv) An organization is an action organization if it has the following two characteristics (a) Its main or primary objective or objectives (as distinguished from its incidental or secondary objectives) may be attained on by legislation or a defeat of proposed legislation and (b) it advocates, or campaigns for, the attainment of such main or primary objective or objectives as distinguished from engaging in non-partisan analysis, study, or research and making the results thereof available to the public.

Legal Precedent:

An organization must not engage in substantial activities that fail to further an exempt purpose. In *Better Business Bureau of Washington, D.C. v. U.S.*, 326 U.S. 279, 283 (1945), the Supreme Court held that the "presence of a single . . . [nonexempt] purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly . . . [exempt] purposes."

GOVERNMENT'S POSITION:

The organization had not operated for exempt purposes and has ceased all charitable activities for several years. Additionally it was the executive director decision to dissolve. In lieu of dissolution CEO decided to an agreed revocation of his organization's exemption by signing the appropriate Forms 6018-A. We are in agreement with CEO's decision to revoke his organization's 501(c)(4) exemption.

TAXPAYER'S POSITION:

CEO, executive director, informed me of his intention to dissolve because his organization was unable to provide the necessary charitable services and has not been able to generate income. According to CEO the organization had been inactive for several years. CEO agreed to revoke his organizations exempt status by signing Form 6018-A "Consent to Proposed Action". CEO submitted the appropriate signed documents which were secured by TEGE on May 20, 20XX.

CONCLUSION:

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ORG's executive director has agreed to revocation by signing Form 6018-A. In addition the organization has ceased all charitable activities and has not operated exclusively for charitable purposes for several years. As a result ORG does not qualify for exemption from federal income tax as an organization described in § 1.501(c)(4) of the Income Tax Regulations.

Based on the facts presented above, it is recommended that ORG's 501(c)(4) exempt status be Terminated effective January 1, 20XX.