

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

**Department of the Treasury**

**Taxpayer Identification Number:**  
C

**Date:** MAY 13 2014

**Person to Contact:**

D  
Tel:  
Fax:

**Number:** 201432037  
**Release Date:** 8/8/2014

**Tax Period(s) Ended:**

A  
B

**UIL:** 501.03-22

**Certified Mail**

Dear

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the internal Revenue Code ("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):

You are not operated exclusively for a charitable, educational, or other exempt purpose. Our examination reveals that you are not exclusively engaged primarily in activities which accomplish charitable, educational, or any other exempt purpose as required by Treas. Reg. section 1.501(c)(3)-1(c)(1). Your activities furthered non-exempt purposes and your income inured to the benefit of an organization not exempt under section 501(c)(3) of the Code. Thus, you operated for the benefit of private, rather than public interests, as required for continued recognition of exemption pursuant to Treas. Reg. section 1.501(c)(3)-1(d)(1)(ii).

Contributions to your organization are no longer deductible under section 170 of the Code after January 1, 2006.

Revenue Procedure 80-27 provides guidance on group exemptions. According to this revenue procedure, when we revoke your tax exemption, we also revoke your group exemption. Effective January 1, 2006, your Group Exemption Number **E** is no longer valid. **Please tell your subordinates of this action.** Each subordinate that wants tax exemption should file an individual application. Otherwise, each subordinate should file a federal tax return.

You are required to file Federal income tax returns on Forms 1120. These returns with the appropriate Service Center for the tax year ended December 31, 2006 and for all tax years thereafter in accordance with the instructions of the return. For further instructions, forms, and information please visit [www.irs.gov](http://www.irs.gov).

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, you may file a petition to 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 to one of these three courts must be filed before the 91<sup>st</sup> day after the date of this determination 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](http://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,

D for Acting Appeals Team Manager

Enclosure:

Pub 892

**Department of the Treasury**  
**Internal Revenue Service**  
**Tax Exempt and Government Entities Division**

TEGE: EO Examinations, MAIL CODE 4900DAL  
1100 Commerce Street, Dallas, Texas 75242

Date: May 16, 2011

ORG  
ADDRESS

CERTIFIED MAIL - RETURN RECEIPT  
REQUESTED

Taxpayer Identification Number:  
Form:  
Tax Year(s) Ended:  
Person to Contact/ID Number:

Contact Telephone Number:  
Contact Fax Number:

Dear '

We have enclosed a copy of our report of examination explaining why we believe revocation of your exempt status under section 501(c)(3) of the Internal Revenue Code is necessary.

If you accept our findings, take no further action. We will issue a final revocation letter.

If you do not agree with our proposed revocation, 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. Your protest should include a statement of the facts, the applicable law, and arguments in support of your position. Forward your protest and request for Appeals Office Consideration to:

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, *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.

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

If we do not hear from you within 30 days from the date of this letter, we will process your case based on the recommendations shown in the report of examination. If you do not protest this proposed determination within 30 days from the date of this letter, the IRS will consider it to be a failure to exhaust your available administrative remedies. Section 7428(b)(2) of the Code provides, in part: "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted its administrative remedies within the Internal Revenue Service." We will then issue a final revocation letter. We will also notify the appropriate state officials of the revocation in accordance with section 6104(c) of the Code.

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 (RAR)

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
Name of Taxpayer ORG EIN: EIN GEN: #		Year/Period Ended 20XX1 2

**Legend**

ORG - Organization name      EIN- ein      XX - Date      Address -  
address      City - city      State - state      President - president  
Secretary - secretary      DIR-1 through DIR-8 - 1<sup>st</sup> through 8<sup>th</sup> DIR  
CO-1 through CO-4 - 1<sup>st</sup> through 4<sup>th</sup> COMPANIES

**Issues:**

- 1) Is an organization that conduct beauty pageants as a substantial part of its activities an organization described in IRC 501(c)(3)?
- 2) Does an organization that provides monetary awards and prizes to contestants in beauty pageants qualify for tax exemption under Internal Revenue Code Section 501(c)(3)?
- 3) Are monetary awards and prizes awarded to beauty pageant contestants qualified scholarships as per IRC 117?

**Facts:**

The ORG (EIN EIN) is an organization that conducts beauty pageants under license from CO-1 a national 501(c)(4) organization. The office address for The ORG is Address, City, State. President, Esq. serves as President, and has served as such since formation. Initially recognized as tax exempt under IRC 501(c)(4), the organization later applied for, and received, tax exemption under Section 501(c)(3) and a group exemption under 501(c)(3). The organization conducts beauty pageants and provides monetary awards to participants and pageant winners. The organization does not engage substantially in any other activities.

**Formation of the organization:** The ORG EIN was formed as a non profit corporation in the State of State via articles filed with the Secretary of State on Oct 31, 20XX. Per the Articles of Agreement, the object of the corporation:

“Is to grant scholarships to young women between the ages of 17 and 24 inclusively (or the current age set by the CO-1 Organization) who have competed in an annual competition known as the ORG. To grant other scholarships to worthy students, male or female, based upon criteria set by the Board of Directors and/or the secondary or post-secondary school the student is attending or will attend. The amount, if any, of these scholarships will be set by the Board of Directors on an annual basis.”

The address of the organization per the articles is shown as:

ORG c/o President  
Address  
City, State

The articles are signed by President, DIR-1, DIR-2, DIR-3, and DIR-4.

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The organization's bylaws state the same name and purpose as do the articles, and adds "This corporation shall be affiliated with the CO-1 Scholarship Program." The bylaws are signed by President, President; DIR-4, Treasurer; DIR-3, Secretary; Secretary, DIR-5, DIR-6, and DIR-7 as Directors. The line assigned for DIR-1 as Vice President is unsigned.

Application for Exempt Status: The organization was granted tax exemption under IRC 501(c)(4) on Feb 16, 20XX, secured IRC 501(c)(3) group exemption for related affiliates in an IRS determination letter dated May 13, 20XX, and finally secured 501(c)(3) recognition for the taxpayer itself in a determination letter dated December 6, 20XX. Per the request for group exemption letter dated August 29, 20XX, several related State regional pageants were listed as subordinates. All applications for exemption, and all correspondence, were produced and signed by the organization's President, President, Esq.

Fundraising Activities: In addition to pageant ticket sales, funding for the organization is provided by corporate sponsors and through various fundraising events held throughout the year. Fundraising events include gaming events including bingo and poker tournaments, concession stands, an annual golf tournament, and an annual ball. These fundraising events are staffed by volunteers.

During the exam year, the agent noted \$\$ in gross gaming income from weekly gaming activities including Bingo, poker tournaments, and Lucky 7s. After prizes and expenses, the organization netted approximately \$\$.

The concession stands operate during CO-2 football games at CO-3 in City, State. These volunteer staffed activities generated approximately \$\$ in 20XX.

An annual golf tournament is also used to raise funds. The agent's review shows just under \$\$ was realized from the golf outing in 20XX.

An annual ball netted approximately \$\$ for the organization through ticket sales, and sales of advertising in ball related media. ORG also raises revenues through DVD sales of the pageants, available on their website.

Disposition of Funds Raised: In the exam year, 20XX, the taxpayer reported \$\$ in general expenses, and an additional \$\$ in special events related expenses (\$\$M total). Grants were reported at \$\$ form 990. This amount represents actual cash paid from an escrow account as winners claim awards granted over the current and prior two years. This figure represents approximately % of the total costs incurred by the taxpayer during the year. A review of the profit and loss statement provided by the taxpayer indicates there were two sub-accounts which made up the grants reported: Scholarships granted - ORG; and Scholarships granted - O/S. These two sub-accounts only totaled \$\$ which was % of the grants reported on line 22b, and % of the organization's total expenses of \$\$M. The \$\$ represents the amount of new awards being

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placed into escrow (obligations), resulting from 20XX pageant activities for which winners have 3 years to collect.

The ORG reported \$25,230 of compensation to officers on line 25a of the form 990. This represented approximately % of the total costs incurred by the taxpayer during the 20XX calendar year. A review of the general ledger indicates there were only two employees on the payroll during 20XX, DIR-8 and DIR-5. This was corroborated by IRS records indicating the taxpayer issued two W-2s during 20XX.

Pageant Activities: The taxpayer organizes and conducts beauty pageants for young women in the City State area, providing monetary awards to pageant contestants and winners. There is no entry fee for contestants.

There are two separate competitions conducted by the taxpayer. Females from the ages of 13 through 17 are able to compete in the ORG Outstanding Teen Competition, and women from the ages of 17 through 24 are able to compete in the ORG regular competition.

In each pageant, contestants take part in several categories for which they are individually judged. Each contestant receives a total score generated via weighted components. The weighting is as follows: % for talent, % for interview, % for evening wear, % for the lifestyle and swimsuit competition, and % for an on-stage question. At the conclusion, all scores are tallied and a winner is determined. The winner of the City area pageant goes on to compete amongst other State regional area winners in the state level pageant. The winner of this state level pageant goes on to represent State in the CO-1 pageant.

Pageant Application and Contract: Prior to competing in the taxpayer's pageant, each contestant must sign a 21 page contract common to all State area pageants operating under CO-1 license. The contract places substantial requirements on each contestant, including fundraising obligations, mandatory rehearsals, and mandatory appearances. Winners are under agreement to perform a "Year of Service," making performance of pageant duties her main life priority, short of education. The contract also defines the contestant's relationship with the ORG as independent contractors, not employees. The contract also states that the competition is critically important and the single most widely recognized element of the program. The following excerpts are from the contestant contract.

Obligations for mandatory fundraising:

**"2.7.1. National Service Platform Requirement.** The CO-1 Organization has entered into an agreement with the CO-4. The agreement, among other things, establishes the CO-4 as the CO-1 Organization's National Platform. As a contestant in the CO-1 program, I am required to raise a minimum of \$ to support the CO-4 and the CO-1. If I

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become Miss \_\_\_\_\_, as a Local title holder, I understand that I am required to raise a minimum of two hundred and fifty dollars (\$) to support the CO-4 and the CO-1. If I become Miss \_\_\_\_\_, as a State title holder, I understand that I will be required to raise a minimum of five hundred dollars (\$), no later than thirty (30) days prior to the National Finals to support the CO-4 and the CO-1. In furtherance of the foregoing, I will create a personal fund raising web page and perform such other acts and deeds in accordance with the instructions and requirements of the CO-1 Organization as the same may change from time to time.”

**Obligations involving performances and appearances:**

**“4.1. Participation in Competition.** I agree to participate in the series of events and appearances leading up to the final selection of the Miss \_\_\_\_\_ Program. These events shall commence and be scheduled on dates to be determined by the Miss \_\_\_\_\_ Organization. I will be bound by the rules and regulations governing the Miss \_\_\_\_\_ Organization and the procedures for the awarding and supervision of all scholarships described in Attachment C. My participation in the competition shall include all public appearances required of me by the Miss \_\_\_\_\_ Organization including, but not limited to, television and radio broadcasts, personal appearances, interviews, still photo sessions, and video and audio taping or filming of all or any part of the events associated with the competition.”

**With regard to ownership rights:**

**4.4. Permanent License of Publication Rights.** I hereby authorize the Miss \_\_\_\_\_ Organization and anyone duly licensed or authorized by the Miss \_\_\_\_\_ Organization to (1) televise, photograph, broadcast and/or make radio, television, video and audio tapes or motion picture recordings of me individually or in a group; (2) use or re-use such photographs, recordings, video tapes, audio tapes and/or motion picture films in all media throughout the world in perpetuity; and (3) use my name, likeness and/or physical depiction for any purpose in perpetuity, in an unedited or edited manner or fashion as the Miss \_\_\_\_\_ Organization, in its sole discretion, shall determine. This authorization shall also include the use of all such photographs, recordings, videotapes, audiotapes and/or motion picture films made during my Year of Service.

**Obligations placed upon runners up:**

**“4.6. Selection as Runner-Up.** If I am selected at the competition as a runner-up for the title of Miss \_\_\_\_\_, I agree to remain available to assume all of the rights, obligations and commitments of the Year of Service, as described in Section 5 of this Application and Contract, in the event that the Miss \_\_\_\_\_ Organization appoints me to do so by reason of the inability or ineligibility, during the Year of Service, of any Contestant who was selected as Miss \_\_\_\_\_ or as another runner-up.”

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Obligations under Year of Service:

**“5.1. Full-time Service as Miss \_\_\_\_\_.”** If I am selected as “Miss \_\_\_\_\_” at the competition, I will serve as “Miss \_\_\_\_\_” during the Year of Service and until my successor is selected or appointed. The duties and obligations of my service as “Miss \_\_\_\_\_” have been described to me and I understand and accept them. I agree that I will dedicate my entire time, efforts and energy during my Year of Service to the fulfillment of these duties and obligations, and that I will engage in no other business or other activities that will in any way interfere with the duties and obligations of my Year of Service. However, school academic activities take precedence.”

Independent Contractor Status of Contestants:

**“5.4. Independent Contractor Status.** I understand and agree that I am and will remain an independent contractor with respect to the Miss \_\_\_\_\_ Organization and that I am not and will not become an employee of the Miss \_\_\_\_\_ Organization during my Year of Service. The authority granted by this Application and Contract to the Miss \_\_\_\_\_ Organization to act on my behalf is intended for the mutual convenience of the Miss \_\_\_\_\_ Organization and myself and in order to provide an effective means of organizing my activities during my Year of Service, and not for the purpose of directing my performances or controlling my activities as if I were an employee of the Miss \_\_\_\_\_ Organization.”

Forfeitability of Monetary Awards:

**“6.5. Scholarship Grants and Forfeitures.** I understand and agree that the grant of scholarships by the Miss \_\_\_\_\_ Organization is subject to the terms and conditions of the Scholarship Rules and Regulations attached to this Application and Contract as Attachment “C”. By signing this Application and Contract, I agree to be bound by those rules and regulations. I understand that all scholarships that I may be awarded will be non-forfeitable in the event that I breach this Contract or fail to perform any duties that I may have as a Contestant. I also understand and agree, however, that such scholarships may be forfeited if I have made any misrepresentations as to my eligibility to compete.”

Amounts, Rules, Limitations of Monetary Awards: Pageant winners, runners up, and contestants qualify for various competition based monetary awards. During the examiner’s interview with the President, President stated that occasionally the Board of Directors will vote to extend scholarships to individuals who are not participants in the various pageants. These are usually fine arts students, but this is not a normal occurrence. President (President) estimated that when additional scholarships are awarded by the ORG that % of all scholarships awarded are given to participants in the beauty pageants.

Winners of awards have three years to collect, as funding is immediately placed in escrow. Funding of monetary awards is provided directly to academic institutions when winners present education

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related billing. Contestants and winners have 3 years from the date of their award to have funding transferred to the school on their behalf. In rare instances, funding is provided directly to the contestant if she can provide receipts for school related necessities, such as a laptop computer, books, etc. The funding may also be used pay off student loans.

During the 20XX calendar/exam year, the organization awarded 19 contestants with prizes ranging from \$ to \$, all initially held in escrow. The funding will be released over the following three years as the winners present tuition bills and/or similar invoices related to education.

Winners from prior year pageants were also paid from the escrow account in 20XX. A total of \$\$ was actually paid out (cash basis) of the account to 20XX, 20XX, and 20XX winners as funding requests were received and approved.

**Law:**

IRC501(c)(3) describes organizations exempt under 501(a) as being both organized and operated exclusively for educational or other exempt purposes. Exempt purposes qualifying for exemption under 501(c)(3) include religious, charitable, scientific, testing for public safety, educational, amateur sports competition, or prevention of cruelty to children or animals. Contests or pageants are not described under this section or in the corresponding tax regulations.

In Miss Georgia Scholarship Fund, Inc. v. Commissioner, 72 T.C. 267 (1979) regarding a scholarship granting entity independent of pageant organizations, the organization was found to be not exempt under IRC 501(c)(3) due to contractual obligations placed upon the scholarship winners. The contractual obligations included performance in the Miss Georgia pageant, and CO-1 pageant. These obligations placed upon scholarship recipients were found not to be exclusively 501(c)(3) purposes.

In Bingler v. Johnson, 394 US 741, 751 (1969), the Supreme Court stated that to be excluded from gross income under Section 117, scholarships must be relatively disinterested, 'no strings' educational grants, with no requirements of any substantial quid pro quo from the recipients.

T. Reg 44.4421-1 Defines beauty pageants as "contests".

"...(3) *Contest*. —A contest includes any type of contest involving speed, skill, endurance, popularity, politics, strength, appearances, etc., such as a general or primary election, the outcome of a nominating convention, a dance marathon, a log-rolling, wood-chopping, weight-lifting, corn-husking, beauty contest, etc."

T. Reg 1.117-4(c)(1) provides that any amount paid, or allowed to, or on behalf of, an individual to enable him or her to pursue studies shall not be considered to be an amount received as a scholarship if the amount represents either compensation for past, present, or future employment services or represents payment for services that are subject to the direction or supervision of the grantor.

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Per T. Reg 1.501(c)(3)-1(d)(1)(ii), an organization is not organized and operated exclusively for an exempt purpose unless it serves a public rather than private interest. Thus, the organization must establish that is not organized or operated for the benefit of a private interest such as those of the creator of the organization or persons controlled, directly or indirectly, by the creator of the organization.

In Revenue Ruling 68-20, 1968-1 CB 55, the Service held that under Section 117 a scholarship is includable in the gross income of a beauty pageant winner as compensation for participating in the contest, playing a leading role in the televised pageant, and for performing subsequent services for, or at the direction of, the sponsoring corporation.

**Government's Position:**

In order for an organization to qualify for tax exemption under IRC 501(c)(3) an organization's activities must be exclusively 501(c)(3) activities. The ORG operates under license of CO-1, a national 501(c)(4) organization. The vast majority of ORG's activities involve organizing and conducting beauty pageants, and supporting CO-1, neither of which is a 501(c)(3) activity.

While ORG uses the term "scholarships" for marketing purposes, and used this term on their application for exemption, these monetary awards are not qualified scholarships per IRC 117. In Revenue Ruling 68-20, 1968-1 CB 55, the Service held that under Section 117 a scholarship is includable in the gross income of a beauty pageant winner as compensation for participating in the contest, playing a leading role in the televised pageant, and for performing subsequent services for, or at the direction of, the sponsoring corporation.

For a 501(c)(3) organization to be based on providing scholarships, the awards must be consistent with true scholarships as defined in IRC 117. This code section defines scholarships as being free from obligations, as was made clear in the "Bingler v. Johnson" case. In contrast, the awards provided by the ORG have significant contractual obligations attached. Contestants are required to attend pageant rehearsals, attend and perform in the pageants themselves, and agree not to participate in any competing pageant activities. Contestants must agree to give up all rights to intangible assets associated with the pageant, such as photographs, and copyright claims. They must agree to the pageant using the contestant's name, likeness and/or physical depiction for any purpose in perpetuity. Additionally, contestants are required to meet predefined fundraising goals as defined by the contract. No contestant may participate in a pageant without first signing the contract, legally binding themselves to these predetermined contractual obligations. Furthermore, the contract stipulates each contestant is an independent contractor, indicating the monetary awards are in fact payments for services.

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The Miss Georgia Scholarship Pageant also operates under license of CO-1. Whereas Miss Georgia's scholarship fund was found not to be a 501(c)(3) organization in "Miss Georgia v. Commissioner" due to obligations placed upon contestants, it is disingenuous for The ORG to argue ORG qualifies for 501(c)(3) basing an argument on their contestant contract stating their "scholarships" are not forfeitable. The Miss Georgia case was ruled on obligations placed upon contestants, not forfeitability of monetary awards. The ORG places similar, perhaps even greater obligations on contestants, than did the Miss Georgia pageant.

The Form 1023 filed by the taxpayer contained descriptions of substantial pageant activities, and the circumstances under which monetary awards and prizes are granted. Within the first two pages of the application, wording such as "Without exception, the winner takes home largest scholarship award of the night." and "...awards scholarships to participants who have no obligations whatsoever once they leave the stage..." Each of these lines clearly shows walking the runway and other services must occur before a "scholarship" can be received, making the scholarships a type of compensatory payment which is specifically prohibited by IRC 117. With instances involving a winner, the monetary award may be viewed as a prize, as per Reg. 44.4421-1, not a scholarship as described in IRC 117. These service related payments clearly represent income in accordance with Treasury Regulation 1.117-4(c)(1).

In order to qualify for monetary awards, applicants must first establish themselves as contestants in beauty pageants, and perform all duties associated with the pageants by means of a signed contract. The contract places substantial and ongoing obligations and services upon each pageant contestant. As such, the monetary awards are inextricably linked with services performed in conjunction with pageant operations; the monetary awards are therefore compensatory in nature. As compensatory payments are not scholarships, no basis for tax exemption under IRC 501(c)(3) exists.

**Taxpayer's Position:**

The ORG Inc. believes the organization is entitled to exemption under Section 501(c)(3) of the Internal Revenue Code in accordance with their current exemption letter. The organization would like to retain their tax exemption under Section 501(c)(3) of the IRC, and will appeal the Service's decision to revoke The ORG tax exemption. The agent called & spoke with the President of the organization, President, on May 4, 20XX, and confirmed the organization's intent to appeal. Agent offered, and the organization accepted, a closing conference in the form of a conference call with the agent and the agent's manager scheduled for Friday May 13, 20XX. During this closing conference call with the President of the organization, the President again made clear their intention to appeal this decision.

**Conclusion:**

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After thorough review of The ORG application for exemption, organizing documents, activities, revenues, expenditures, and careful review relevant law, the Service concludes The ORG Inc. is neither organized, nor does it operate, as an organization described in 501(c)(3) of the Internal Revenue Code. The organization is organized to conduct beauty pageants in support of a national 501(c)(4) organization (CO-1), and all activities of The ORG, and its regional subsidiaries, support that goal. The ORG activities are as not as described in Section 501(c)(3) of the Internal Revenue Code. Therefore, the taxpayer is not organized and operated exclusively for 501(c)(3) purposes, and the taxpayer does not qualify for tax exemption under IRC 501(c)(3). Based on this reasoning, the Service concludes the tax exemption should be revoked effective January 1, 20XX and for all periods thereafter.

Additionally, the monetary awards provided to pageant contestants, referred to as "scholarships" by the taxpayer, are compensatory in nature and are not qualified scholarships per IRC 117. As such, they serve no valid basis for any form of tax exemption, and are not excludable from recipients' taxable income under IRC 117. These service related payments represent compensation in accordance with Treasury Regulation 1.117-4(c)(1), and Revenue Ruling 68-20, 1968-1 CB 55.