

DEPARTMENT OF THE TREASURY  
Internal Revenue Service



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Date: OCTOBER 1, 2014

Release Number: 201503021  
Release Date: 1/16/2015

Person to Contact:  
Identification Number:  
Contact Telephone Number:  
In Reply Refer to:  
EIN:

LAST DATE FOR FILING A PETITION  
WITH THE TAX COURT: DECEMBER 30, 2014

**CERTIFIED MAIL - Return Receipt Requested**

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 April 1, 20XX

Our adverse determination was made for the following reasons:

You have not demonstrated that you are operated exclusively for charitable, educational, or other exempt purposes within the meaning of I.R.C. section 501(c)(3). Organizations described in I.R.C. section 501(c)(3) and exempt under section 501(a) must be organized and operated exclusively for an exempt purposes. You have provided information and receipts which showed that substantial and significant amounts of expenditures were incurred for the personal benefit of the officers. You have not established that you have operated exclusively for an exempt purpose.

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 March 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 91<sup>st</sup> 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 1-877-777-4778 and ask for Taxpayer Advocate assistance. Or you can contact the Taxpayer Advocate from the site where the tax deficiency was determined by calling, Tel: \_\_\_\_\_, or write :

Local Taxpayer Advocate:  
Taxpayer Advocate Office

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,

Commissioner  
*By Reginald Hall*

Director, EO Examinations

Enclosures:  
Publication 892



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

## Date:

March 19, 2014

Taxpayer Identification Number:

## Form:

990-PF

Tax year(s) ended:

20XX03, 20XX03

Person to contact / ID number:

Contact numbers:

Phone Number:

Fax Number:

Manager's name / ID number:

Manager's contact number:

Phone Number:

Response due date:

April 19, 2014

**Certified Mail - Return Receipt Requested**

Dear :

**Why you are receiving this letter**

We propose to revoke your status as an organization described in section 501(c)(3) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

**What you need to do if you agree**

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(3).

After we issue the final revocation letter, we'll announce that your organization is no longer eligible for contributions deductible under section 170 of the Code.

**If we don't hear from you**

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

**Effect of revocation status**

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

**What you need to do if you disagree with the proposed revocation**

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You also may file a protest with the

IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

**Contacting the Taxpayer Advocate Office is a taxpayer right**

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't 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:

Internal Revenue Service  
Office of the Taxpayer Advocate

**For additional information**

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 Downing  
Director, EO Examinations

Enclosures:  
Report of Examination  
Form 6018  
Publication 892  
Publication 3498

Form <b>886A #3</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended 20XX03, 20XX03

**ISSUE:**

Is the \_\_\_\_\_ an organization exempt from tax under Section 501(c)(3) of the Internal Revenue Code (IRC)?

**FACTS:**

**Determination Letter**

The organization was granted tax-exempt status by Rulings and Agreements under Section 501(c)(3) of the Internal Revenue Code, on July 11, 20XX. The letter was issued by Rulings and Agreements, \_\_\_\_\_ and was signed by then District Director. The organization is required to file the annual information return Form 990-PF with the Service.

**Internal Revenue Service ("IRS")**

The Foundation was established by \_\_\_\_\_ CEO, and \_\_\_\_\_ CFO, in 20XX. They were the sole donors since the Foundation's inception. In audit year ended on March 31, 20XX, the couple contributed a total of \$\_\_\_\_\_ in checks to the Foundation. The contributions were the only income the Foundation received.

Expenditures	4/1/XX~12/31/XX, 1/1/XX~3/31/XX, 03/31/20XX		
	%	%	%
Travel, conferences, and meetings	\$ .	\$:	\$ .
Insurance Expenses			
Produce, mail and distribute religious materials			
Office expenses			
Business Lunch			

Form <b>886A #3</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
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		20XX03, 20XX03

Design, host and maintain a blog and website

Host weekly religious activities

Total

The Foundation disbursed the payments ended on March 31, 20XX the same pattern as the previous year as follows:

Expenditures	4/1/XX~12/31/XX, 1/1/XX~3/31/XX, 03/31/20XX		
	%	%	%
Travel, conferences, and meetings	\$.		\$.
Insurance Expenses			
Produce, mail and distribute religious materials			
Office expenses			
Business Lunch			
Design, host and maintain a blog and website			
Host weekly religious activities			
Total			

Due to the Foundation adopted fiscal year was different from disqualified person's calendar year, adjusting the Foundation's expenditures to meet disqualified person's taxable year as follows:

Self-Dealing Act	12/31/XX	12/31/XX	03/31/XX
Travel, conferences, and meetings	\$.	\$	\$'
Insurance Expenses			
Produce, mail and distribute religious materials			

Form <b>886A #3</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended 20XX03, 20XX03

Office expenses

Business Lunch

Design, host and maintain a blog and website

Host weekly religious activities

Automobile

0

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Total \$ \$ \$

(Refer to the attachment for the explanation and calculation of the figures)

(Automobile Expenses was based on actual mileage usage to the specific auditing period x business mileage rate.)

The Foundation reported \$0 for "Contributions, Gifts, and Grants" on the return to the following two donees during the audit year ended on March 31, 20XX:

\$0 Non-Profit

\$0 Church

The foundation also claimed the following donations to the \_\_\_\_\_ and \_\_\_\_\_ for the audit year ended on March 31, 20XX:

Date	Check #	Amount	Recipient	Account #
06/17/XX	0	\$		0
06/28/XX	0			0
06/30/XX	0			0
07/05/XX	0			0
07/25/XX	0		-----	-----
Total		\$		

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Date	Check #	Amount	Recipient	Account #
06/23XX	0	\$.		0
07/28XX	0			0
-----		-----		
Total		\$.		

**LAW**

Section 501(c)(3) of the Internal Revenue Code provides for exemption from tax for “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 ... 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.”

Section 1.501(c)(3)-1(c) of the income tax regulations provides that (1) Primary activities. —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 of such exempt purposes specified in section Link 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. (2) Distribution of earnings. —An organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.”



Form <b>886A #3</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended 20XX03, 20XX03

In *Better Business Bureau v. United States*, 326 U.S. 279, 283, the court stated that the presence of a single substantial nonexempt purpose precludes exempt status for an organization, regardless of the number or importance of the exempt purposes.

### TAXPAYER'S POSITION

The Foundation has not submitted its position.

### GOVERNMENT'S POSITION

Based on reviewing detailed documents of \$ [redacted] on March 31, 20XX for Travel, Conference, and Meetings, the Foundation claimed gas expenses; fastrak; parking; airfare, hotel, meals, museum administration ticket for attending [redacted] annual symposium of [redacted] tickets for [redacted] and their child to [redacted]. During the interview, [redacted] expressed he majored in Bio-Chemistry and is a Bio-Tech engineer with [redacted]. The expenditures he claimed could not prove they were exempt related purposes.

The agent inquired with [redacted] whether the \$ [redacted] on March 31, 20XX for Insurance Expenses consisted of any other vehicle coverage and requested a copy of the automobile insurance policy for the audit year. He replied he was unable to remember and couldn't locate the policy.

The Foundation claimed it conducted a mailing program through which they mail religious materials to people for the purpose of advancing religion by introducing and sharing their religion. Reviewed post office receipts of the mailing expenses of \$ [redacted] the recipient's addresses revealed were from around the world, for instance, Sweden, Australia, Russia, Finland, Singapore, Canada, France, Switzerland, South Korea, United Kingdom....with some of the packages weighing over 3 or 4 pounds. All of the packages were mailed by [redacted]

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through the audit year. The Foundation reimbursed to \$ dated 03/18/20XX with check #0. and were agents of the located at , and the same address as their residence. According to the corporation filings, the purpose of the is "Planning to sell clothes and accessories". The mailing expenses prove that they were for profit business.

Among \$ of Office Expenses, the Foundation's checking account #0 revealed payments to

. The couple owns property as follows through the agent's research:

The couple owns some rental properties in and uses the Foundation's funds to pay for maintenance materials shown on Bank Business Checking Account for the audit year ended March, 31, 20XX as following samples:

11/08/XX	11/04/XX	\$
11/12/XX	11/11XX	\$
11/15XX	11/12XX	\$

The CEO stated the Foundation uses a partial of his residence located at as its office for conducting its tax-exempt purposes. Hence, the Foundation claimed utility bills as Office Expenses. However, the agent detected the Foundation paid two checks to "

Form 886A #3	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
<b>Explanation of Items</b>		Year/Period Ended
Name of Taxpayer		20XX03, 20XX03

Association” for HOA dues of their residence which benefited their personal interests. The detailed payments are as follows:

Date	Check Number	Amount
09/28/20XX	0	\$
03/30/20XX	0	\$

These above expenditures sampled from bank statements could not prove they were tax exempt related purposes.

As far as \$ Business Lunch, the CEO’s statement alleged that “The purpose of our business lunch program is to spread the gospel, advance our religion and look for opportunities to provide community service.” Based on reviewing the statements of the Foundation reimbursed various restaurants in different cities with small charges of not more than \$ No evidence was provided to substantiate the tax exempt purposes were carried on.

The Foundation reported \$ to design, host and maintain a blog and website on the return, but was unable to provide the dates, amounts and recipient’s names. Therefore, the expenses couldn’t be proved they were tax exempt related.

During the interview and reviewing the statements provided, CEO, stated the Foundation conducts weekly religious activities by which they organize programs typically composed of dinner together, singing hymns, prayer together, bible studies, and life sharing discussions. The Foundation reported an expenditure of \$ to “Host Weekly Religious Activities” with transactions at various businesses, for instance, etc. The Foundation could not prove the business transactions were exempt related activities and the meeting actually took place.

Form <b>886A #3</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
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has an credit card from with account number and his wife 0 . They charged the above mentioned expenses on their credit cards and disbursed monthly credit card payments from the Foundation's checking account of Bank as following samples for the year ended March 31, 20XX:

Account #0

Apr.	\$	20XX	Oct..	\$	20XX
May.	\$	20XX	Nov.	\$	20XX
Jun.	\$	20XX	Dec.	\$	20XX
Jul.	\$	20XX	Jan.	\$	20XX
Aug.	\$	20XX	Feb	\$	20XX
Sep.	\$	20XX	Mar.	\$	20XX

They also used the Foundation's ATM & DEBIT card to pay the following sampling of personal expenses:

Date	Description	Amount
04/12/XX		\$
04/12/XX		\$
04/21/XX		\$
04/26/XX		\$
04/27/XX		\$
07/29/XX		\$
10/18/XX		\$
11/05/XX		\$
11/26/XX		\$

Form <b>886A #3</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
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01/03/XX \$  
03/25/XX \$.

The above mentioned expenses were all personal and had no evidence that they were for exempt purposes.

purchased an automobile ( plate ) on 05/08/20XX with title in for \$ paid by with check #0 dated on 05/08/20XX of Bank. Based on reviewing 20XX Form 990-PF, the agent found the automobile cost recorded as an Asset on the Foundation's Balance Sheet.

The automobile is located at , the couple's residence. Both of them have the right to use the Foundation's vehicle.

Based on reviewing ; statements, Checking Account statements, General Ledger, and detailed statements for the above sampled expenditures, the couple used the automobile engaging in various activities for their personal life.

Automobile Expenses was based on actual mileage usage during the specific auditing period times business mileage rate during the audit year ended on March 31, 20XX and 20XX:

CEO, and CFO traveled to from 02/16/XX to 03/09/XX.

During the interview and reviewing their statements, the couple stated they participated in programs of ( ) during their stay in and decided to donate \$ to this church after they fully understood their faith and theology, programs and their financial need.

The can not have any bank account due to it is not an officially registered organizations. Thus the couple distributed the donation in the format of cash in which the

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Foundation issued checks to \_\_\_\_\_ and he converted the checks to cash in the \_\_\_\_\_ The  
 ( \_\_\_\_\_ ) is a division of a \_\_\_\_\_ located at \_\_\_\_\_. The school is financially supported by the  
 house church for the poor children who come from remote and poor villages and can not afford  
 to go to school. The couple donated \$ \_\_\_\_\_ in cash to the school for the same reason as  
 \_\_\_\_\_. The agent reviewed the \_\_\_\_\_ statements and identified the following records for the  
 audit year ended on March 31, 20XX:

Date	Check #	Amount	Recipient	Account #
03/14/XX	0	\$ _____		0
02/14/XX	0	\$ _____		0

No evidence that the above amounts were actually paid to the churches. In addition, the agent  
 asked the couple during the interview whether they exercised "Expenditure Control" on the  
 donations from \_\_\_\_\_ and \_\_\_\_\_. They replied with not knowing the regulation of  
 "Expenditure Control" and didn't exercise it.

The Foundation disbursed the payments ended on March 31, 20XX the same pattern as the  
 previous year.

**CONCLUSION:**

Since substantial amounts of the foundations assets were paid for \_\_\_\_\_ and  
 personal expenses with the above 80% ratio of personal expenses to total contributions for the  
 audit year ended on March 31, 20XX and 20XX and the officers failed to exercise taxable  
 expenditures responsibility, the foundation's tax exempt status under section 501(c)(3) is  
 revoked.

The Foundation is required to file Form 1120 effective on April 1, 20XX.