



**DEPARTMENT OF THE TREASURY**

Internal Revenue Service  
TE/GE EO Examinations  
1100 Commerce Street M/C 4920 DAL  
Dallas, TX 75242

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Date: MAY 27 2015

Number: **201544028**  
Release Date: 10/30/2015

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

LAST DATE FOR FILING A PETITION  
WITH THE TAX COURT:

UIL Code: 501.03-00

**CERTIFIED MAIL – Return Receipt Requested**

Dear :

This is a Final Adverse Determination Letter that your organization was not exempt from taxation under section 501(a) as described under section 501(c)(3) of the Internal Revenue Code (IRC). The denial of your tax exempt status is effective February 1, 19XX.

Our adverse determination was made for the following reasons:

You have not established that you are operated exclusively for an exempt purpose or that you have been engaged primarily in activities that accomplish one or more exempt purposes.

You have not established that no part of your net earnings inure to the benefit of any private shareholder or individual.

You failed to respond, appeal or otherwise seek administrative consideration to our report of examination proposing your revocation dated September 26, 2014.

Contributions to your organization are not 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 January 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.

The Taxpayer Advocate Service (*TAS*) is an independent organization within the IRS that can help protect your taxpayer rights. We can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for our assistance, which is always free, we will do everything possible to help you. Visit [taxpayeradvocate.irs.gov](http://taxpayeradvocate.irs.gov) or call 1-877-777-4778.

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,

John A. Koskinen  
Commissioner

By



Margaret Von Lienen  
Director, EO Examinations

Enclosures:  
Publication 892

**Internal Revenue Service**  
**Tax Exempt and Government Entities Division**  
Exempt Organizations: Examinations  
4330 Watt Avenue  
SA-6209  
Sacramento, CA 95821

**Department of the Treasury**

**UIL Code: 501.03-00**

**Date:**  
September 26, 2014  
**Taxpayer Identification Number:**

**Form:**

**Tax Year(s) Ended:**

**Person to Contact/ID Number:**

**Contact Numbers:**

Telephone:

Fax:

**Manager's name/ID number:**

**Manager's contact number:**

**Response due date:**

**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,

Barbara L. Harris  
Director, EO Examinations

Enclosures:  
Report of Examination  
Form 6018  
Publication 892  
Publication 3498

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
Name of Taxpayer	TIN	Year/Period Ended 1/31/20XX 1/31/20XX 1/31/20XX 1/31/20XX

**Issue:**

Does \_\_\_\_\_, qualify for exemption under Section 501(c)(3) of the Internal Revenue Code (IRC)?

**Facts:**

\_\_\_\_\_ is recognized as a tax exempt organization under IRC section 501(c)(3). \_\_\_\_\_, Form 1023 *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code* was filed in 19XX. Form 1023 was signed by \_\_\_\_\_, a CPA with a master's degree in taxation.

The Form 1023 stated that \_\_\_\_\_ activity will be "conducting social research in the emotional and psychological differences between men and women...and to instruct married couples about the multiple methods and techniques for wealth accumulation which may lead to a more stable and enduring marriage or relationship." Other activities described on the Form 1023 include "conduct lectures, seminars, workshops, retreats, and engage in individual counseling."

\_\_\_\_\_ who signed the Form 1023, was convicted during October 20XX on \_\_\_\_\_ counts of subscribing to false income tax returns for the tax years 19XX, 20XX, 20XX, and 20XX, and is currently incarcerated.

\_\_\_\_\_ used \_\_\_\_\_ to conceal business receipts from his accounting practice in order to evade payment of federal income tax. From 19XX through 20XX \_\_\_\_\_ fraudulently reported \$ \_\_\_\_\_ gross receipts of his accounting practice as receipts of \_\_\_\_\_ thereby evading personal Federal income taxes of \$ \_\_\_\_\_. Appendices A, A1, A2, A3, and A4 show specific transactions obtained from bank statements which support these figures.

IRS records indicate that from 19XX to 20XX \_\_\_\_\_, CPA, used the EIN of \_\_\_\_\_ to report revenue earned by preparation of tax returns while doing business in the name of \_\_\_\_\_. The types and quantities of returns are:

<u>Type of Tax Return</u>	<u>19XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>	<u>20XX</u>
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Individual

Corporate

Total Returns

Prepared

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
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The Form 990 returns were filed after the examination had been initiated. The January 31, 20XX through January 31, 20XX Forms 990 returns were signed by and reported earnings from accounting practice. Moreover, at direction a K-1 reporting earnings from his CPA practice was issued to the EIN of .

No information was provided to support that the board engaged in any oversight of or its activities. Form 990 returns identified board members. However, no board meeting minutes were provided. Consequently no support is available to indicate that the board exercised oversight of activities.

made false and misleading statements during the examination. stated that he did not have an accounting practice. He also stated that he does not give receipts to clients and does not send or prepare bills or invoices to clients. However, documents indicate that he did invoice his clients in the name of and for tax and accounting services provided by his office.

established bank accounts in the name of and used them to conceal gross receipts of and . The income generated by the accounting practice was deposited into the bank accounts and the bank account deposits were reported as receipts of on Form 990 returns.

stated that all of revenue was generated from providing marriage counseling. However, checks received as payments and deposited into bank accounts were made payable to and . In many cases the memo line on the check payments deposited into bank accounts made a reference to tax returns or accounting services. Clients did not receive marriage or relationship counseling from or . In many instances clients had never heard of or the counseling services it provided.

Expenses incurred by the accounting practice as well as personal expenditures were reported as expenses on Form 990 returns. stated that the foundation does pay for some of his personal expenses which he treats as wages. He reported this amount as compensation on line 25 of the Form 990 returns. Part of this amount includes charges made using credit cards. He stated that he does not keep the calculation which he used to arrive at the reported compensation.

Many of the expenses of could not be distinguished between business and personal expenses. used funds to pay for the purchase of an

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airplane, flight training, airplane maintenance, and other expenses incurred in connection with owning and operating a personal aircraft. stated that the airplane was used only for activities and that he did not use it for personal trips. He stated that needed the plane to travel to seminars, counseling sessions, and radio/TV shows. However, stated that he did not maintain a flight log.

stated that all the reported gas expense was for car gas and that none of this was for airplane fuel. No travel documentation was provided to substantiate the gas expense and refused to further discuss the expense.

**Law:**

Internal Revenue Code (IRC) section 501(c)(3) exempts from federal income tax organizations organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, educational purposes, to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, provided that no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

Federal Tax Regulations (Regulations) Section 1.501(c)(3)-1(a)(1) of the provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section.

Regulations Section 1.501(c)(3)-1(c)(1) of the provides that an organization will not be regarded as operated exclusively for exempt purposes if more than an insubstantial part of its activities is not in furtherance of exempt purposes.

Regulations Section 1.501(c)(3)-1(d)(1)(ii) of the provides that to meet the operational test, an organization must be engaged in activities furthering "public" purposes rather than private interests. It must not be operated for the benefit of designated individuals or the persons who created it.

**Taxpayer's Position:**

position is not known at this time.

is currently incarcerated.

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**Government's Position:**

is not organized and operated exclusively for exempt purposes as required by IRC 501(c)(3). does not conduct any charitable activities. Instead, used to conceal income from his accounting practice and ultimately evade personal income taxes.

None of activities were in furtherance of an exempt purpose. As stated in Regulations section 1.501(c)(3)-1(c)(1), an organization will not be operated exclusively for exempt purposes if more than an insubstantial amount of its activities are not in furtherance of exempt purposes. offered tax preparation and accounting services which do not constitute exempt activities. was recognized as an exempt organization to provide marriage counseling services, seminars, workshops, retreats, as well as engage in individual counseling. However, none of these services were provided. clients were not even aware that supposedly offered such services. Checks received as payments showed that clients were paying for accounting services.

An exempt organization must be engaged in activities furthering "public" purposes rather than private interests. It cannot be operated for the benefit of its creator as stated in Regulations section 1.501(c)(3)-1(d)(1)(ii). was operated solely for the benefit of , its creator. served to conceal income from accounting practice and aide him in the evasion of personal income tax. As such, is not in compliance with this regulation.

Net earnings of an organization exempt under IRC Section 501(c)(3) cannot inure to an individual. disbursements were either for personal expenses or for business expenses of accounting practice. None of activities were in furtherance of an exempt purpose. As such, disbursements constitute inurement to and is not in compliance with IRC 501(c)(3).

**Conclusion:**

is not organized and operated exclusively for charitable purposes as required by IRC section 501(c)(3). tax-exempt status should be revoked.