



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

**DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Attn: Mandatory Review, MC 4920 DAL
1100 Commerce St.
Dallas, TX 75242**

Date: September 22, 2015

Number: 201552033

Release Date: 12/24/2015

Employer Identification Number:

Person to Contact/ID Number:

UIL: 501.02-00

Contact Numbers:

Voice

Fax

Dear _____ :

In a determination letter dated November 19XX, you were held to be exempt from Federal income tax under section 501(c)(2) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(2) of the Code. Accordingly, your exemption from Federal income tax is revoked effective April 1, 20XX. This is a final adverse determination letter with regard to your status under section 501(c)(2) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. On May 26, 20XX you signed Form 6018-A, *Consent to Proposed Action*, agreeing to the revocation of your exempt status under section 501(c)(2) of the Code.

You are required to file Form 1120 U. S. Corporation Income Tax Returns. These returns should be filed with the appropriate Service Center for all years beginning April 1, 20XX. We have secured Form 1120 for years ended March 31, 20XX, March 31, 20XX and March 31, 20XX.

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS 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 TAS assistance, which is always free, TAS will do everything possible to help you. Visit taxpayeradvocate.irs.gov or call 1-877-777-4778.

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

Thank you for your cooperation.

Sincerely,

Margaret Von Lienen
Director, EO Examinations

Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities Division
Exempt Organizations: Examinations
1616 Capitol Av Suite 450 MS4710OMA
Omaha, NE 68102-4923

Date: April 27, 2015

Taxpayer identification number:

Form:

Tax year(s) ended:

Person to contact/ID number:

Contact numbers:

Telephone:

eFax:

Manager's name/ID number:

Manager's contact number:

Response due date:

Certified Mail – Return Receipt Requested

Dear _____ :

Why you are receiving this letter

Enclosed is a copy of our report of examination explaining why revocation of your organization's tax-exempt status is necessary.

What you need to do if you agree

If you agree with our findings, please sign the enclosed Form 6018-A, *Consent to Proposed Action*, and return it to the contact at the address listed above. We'll send you a final letter revoking your exempt status.

If we don't hear from you

If we don't hear from you within 30 calendar days from the date of this letter, we'll process your case based on the recommendations shown in the report of examination and this letter will become final.

Effects of revocation

In the event of revocation, you'll be required to file federal income tax returns for the tax year(s) shown above. File these returns with the contact at the address listed above within 30 calendar days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

What you need to do if you disagree with our findings

If you disagree with our position, you may request a meeting or telephone conference with the supervisor of the 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.

If you and Appeals don't agree on some or all of the issues after your Appeals conference, or if you don't request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court after satisfying procedural and jurisdictional requirements.

You may also request that we refer this matter for technical advice as explained in Publication 892. Please contact the person identified in the heading of this letter if you're considering requesting technical advice. If we send a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, then 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 Service (TAS). **TAS is your voice at the IRS. This service helps taxpayers whose problems with the IRS are causing financial difficulties; who have tried but haven't been able to resolve their problems with the IRS; and those who believe an IRS system or procedure is not working as it should. If you believe you are eligible for TAS assistance, you can call the toll-free number 1-877-777-4778 or TTY/TDD 1-800-829-4059. For more information, go to www.irs.gov/advocate.** 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 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,

Margaret Von Lienen
Director, EO Examinations

Enclosures:
Report of Examination
Form 6018-A
Publication 892
Publication 3498

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended 20XX 20XX

ISSUE: Should the exempt status of (referred to as the "Organization"), under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(2) be revoked for all years beginning on April 1, 20XX, due to Unrelated Business Taxable Income.

FACTS: The Organization was incorporated in November of 19XX. The Organization received its ruling date December 19XX from the Internal Revenue Service. The Organization's Articles of Incorporation for the Organization Section III, states the purpose:

"The purposes of which the corporation is organized shall be, providing for, erecting, owning, leasing or renting, furnishing and managing a building or buildings or grounds, for the use in whole or part, of any benevolent, charitable, civic, educational, fraternal, athletic, patriotic, religious, have for its additional purpose the making of donations to the public welfare or for charitable, scientific, religious or educational inure to the benefit of any of the corporations, directors or officers.."

The Articles of Incorporation did not include the statement; "...cannot accumulate income and retain its exemption, but it must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under section 501(a)."

RENTAL PROPERTY

The Organization holds title to the property of _____ located at _____ . The property is located at the southwest corner of _____ , on the north side of _____ , in south-central portion of _____. An appraisal was taken of this property on June 14, 20XX for the intended use of financing. Below is the information taken from that appraisal document:

- The property was built in 19XX with Addition in about 19XX.
- The main level has a banquet hall in the center with bar, kitchen, and restrooms.
- At each end of the building are 825 SF offices on the main level and 1,800 SF offices on the second levels.
- The total area office area is 5,250 SF.
- The shape of the building is rectangular.
- The traffic counts are 40,280 vehicles per day at _____ as of June 28, 20XX as reported by the City of _____ .
- According to the Metropolitan Area Planning Agency, _____ carries about 180,000 vehicles past _____ each day.

Located in the parking lot is a tall marquee that advertises the rental of the banquet hall. The marquee can be viewed from _____ and surrounding area. January 13, 20XX, I toured the facility, I observed the marquee's revolving message was: Hall for rent call _____. Follow us on Twitter @ _____. The marquee gives the time and temperature and shows the _____ symbol.

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The offices located in the building that are paying rent are:

- - non-profit organization
- - non-profit organization
- - for-profit

THE BANQUET HALL

The banquet hall is rented to local union members and the public along with the kitchen and bar. The current Liquor license was posted for the license period of 11/01/20XX to 10/31/20XX. The provided me with the terms of renting the banquet Hall. All rental rates include bartenders; you may provide your own caterer.

The Rental Rates:

- Saturday 6 hour Rental - \$
- Friday 6 hour Rental - \$

Week Day Rentals:

- 4 hours evening M-Th - \$
- 4 hour breakfast or luncheon meeting M-Th - \$
- 6 hours M-Th - \$
- 6 hours Sunday - \$

There are other terms for the damage deposit, optional add-ons, and bar. The option add-ons are use of stove, sound system, accent lights, etc. See attached Exhibit A.

BAR

When the Organization rents the hall it provides the option to rent the bar services, bartender services and security personal. The Organization receives income from the bar operation, security fees and bartender services. The income from these activities was reported as unrelated business income on the 990-T. Income from the bar was \$ for the 20XX period. This income does not meet the exceptions under IRC Section 512(b)(3)(A)(ii) and 512(b)(3)(B)(i). The same Income amount for the bar is similar for the 20XX and 20XX tax periods.

Forms 990-T

The Form 990-T ending March 31, 20XX was received on 2-21-20XX. This returned resulted in a loss of \$. The Form 990-T ending March 31, 20XX was received on 2-21-20XX. This return resulted in \$ due. The Form 990-T ending March 31, 20XX has not been received or processed at this time. The POA provide a courtesy copy of the Form 990-T ending March 31, 20XX and there was no tax due.

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LAW

IRC 501(c)(2)

Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under this section. Rules similar to the rules of subparagraph (G) of paragraph (25) shall apply for purposes of this paragraph.

§ 1.501(c)(2)-1 Corporations organized to hold title to property for exempt organizations.

(a) A corporation described in section 501(c)(2) and otherwise exempt from tax under section 501(a) is taxable upon its unrelated business taxable income. For taxable years beginning before January 1, 1970, see § 1.511-2(c)(4). Since a corporation described in section 501(c)(2) cannot be exempt under section 501(a) if it engages in any business other than that of holding title to property and collecting income therefrom, it cannot have unrelated business taxable income as defined in section 512 other than income which is treated as unrelated business taxable income solely because of the applicability of section 512(a)(3)(C); or debt financed income which is treated as unrelated business taxable income solely because of section 514; or certain interest, annuities, royalties, or rents which are treated as unrelated business taxable income solely because of section 512(b)(3)(B)(ii) or (13). Similarly, exempt status under section 501(c)(2) shall not be affected where certain rents from personal property leased with real property are treated as unrelated business taxable income under section 512(b)(3)(A)(ii) solely because such rents attributable to such personal property are more than incidental when compared to the total rents received or accrued under the lease, or under section 512(b)(3)(B)(i) solely because such rents attributable to such personal property exceed 50 percent of the total rents received or accrued under the lease.

(b) A corporation described in section 501(c)(2) cannot accumulate income and retain its exemption, but it must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under section 501(a).

TAXPAYER'S POSITION

The POA was offered a closing conference on March 10, 20XX via telephone call. The POA did not make a decision. The POA has agreed to the revocation and requests to file the Form 1120 for the period ending March 31, 20XX. The POA provided a courtesy copy of the Form 990-T for the March 31, 20XX tax period.

GOVERNMENT'S POSITION

The Organization was organized under IRC Section 501(c)(2) and received its ruling date December 19XX. The Organization does not have the appropriate Articles of Incorporation because it does not have the "...cannot accumulate income and retain its exemption, but it must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under section 501(a)." The Organization is not properly organized per IRC Section 501(c)(2).

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The Organization has rented out three offices. The Organization is correct in renting out real property. The Organization also rented out the banquet hall to union members and the public along with the rental of personal services. The rental of personal services does not meet the definition because it is not the real property. The Organization provided personal services and does not meet IRC Section 501(c)(2). The Organization provided the following personal services: bartenders, security personnel and open bar services. The Organization had bar sells of \$ with similar amounts for the 20XX and 20XX tax periods. The Organization cannot remain exempt.

CONCLUSION:

Due to the determination that Organization has conducted activities that are in violation of Internal Revenue Code Section 501(c)(2), the Internal Revenue Service is proposing that the tax exempt status of this organization be revoked for all years beginning on April 1, 20XX. You are required to file the Form 1120 for the period ending March 31, 20XX and all future years.