



**DEPARTMENT OF THE TREASURY**

Internal Revenue Service  
TE/GE EO Examinations  
1100 Commerce Street  
Dallas, TX 75242

**TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION**

Date: 9/30/2015

Release Number: 201603036  
Release Date: 1/15/2016  
UIL Code: 501.03-00

**Taxpayer Identification Number:**

**Person to Contact:**

**Employee Identification Number:**

**Employee Telephone Number:**  
(Phone)  
(Fax)

**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 January 1, 20XX.

Our adverse determination was made for the following reasons:

Organizations described in I.R.C. § 501(c)(3) and exempt under section 501(a) must be both organized and operated exclusively for exempt purposes. 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). An organizations will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. 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. If you have not already filed these returns and the agent has not provided you instructions for converting your previously filed Form 990 to Form 1120, you should file these income tax returns with the appropriate Service Center for the tax year ending December 31, 20XX and for all tax years thereafter in accordance with the instructions of the return.

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, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: United States Tax Court, the United States Court of Federal Claims, or the United States

District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed before the 91st day after the date this determination was mailed to you if you wish to seek review of our determination. Please contact the clerk of the respective court for rules and the appropriate forms regarding filing petitions for declaratory judgment by referring to the enclosed Publication 892. Please note that the United States Tax Court is the only one of these courts where a declaratory judgment action can be pursued without the services of a lawyer. You may write to the courts at the following addresses:

United States Tax Court  
400 Second Street, NW  
Washington, DC 20217

US Court of Federal Claims  
717 Madison Place, NW  
Washington, DC 20005

U. S. District Court for the District of Columbia  
333 Constitution Ave., N.W.  
Washington, DC 20001

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 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 contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Margaret Von Lienen  
Director, EO Examinations

Enclosures:  
Publication 892





**Department of the Treasury  
Internal Revenue Service**

1100 Commerce Street, MC 4915 DAL  
Dallas, TX 75242

Date:  
April 24, 2015

Taxpayer Identification Number:

Form:  
990

Tax year(s) ended:  
December 31, 20XX-20XX

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:

**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,

Margaret Von Lienen  
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.
		Year/Period Ended December 31, 20XX-20XX

**Revocation of IRC 501(c) (3) tax-exemption**

**Issue:**

Whether the IRC §501(c)(3) tax exempt status of \_\_\_\_\_ should be revoked because it is no longer operated exclusively for tax exempt purposes.

**Facts:**

\_\_\_\_\_ ( ) was incorporated under the laws of the state of \_\_\_\_\_ as a non-profit organization on March 25, 19XX.

\_\_\_\_\_ was originally formed as an educational organization focusing on drug and alcohol prevention. Their mission statement mentions developing "other programs to address areas of need". On 10/9/19XX, an amendment to the articles indicated that the name of the organization was amended to include "\_\_\_\_\_."

In 19XX, \_\_\_\_\_ acquired a certificate of authority to do business in the state of \_\_\_\_\_. Application for Certificate of Authority to operate in \_\_\_\_\_ states that "the purpose which it proposes to pursue in conducting its affairs in are to develop gang and drug free living environments and to teach drug free and gang free living." On 2/19/19XX the charter was amended to include the purpose of providing "quality/affordable gang-free/drug-free housing, living and educational environments and opportunities..." That same year \_\_\_\_\_ acquired an apartment complex. The next year \_\_\_\_\_ purchased a 296 unit apartment complex in \_\_\_\_\_ from the \_\_\_\_\_. This property operated under the name \_\_\_\_\_. As part of the acquisition, \_\_\_\_\_ guaranteed that 35 percent of the units would be rented to low income tenants for a period of forty years.

Except for the fact that it paid no income tax, \_\_\_\_\_ operated in a way that was indistinguishable from a multi-unit housing complex that is operated as a for-profit business. The unrelated management company, \_\_\_\_\_, overseeing the complex took measures to ensure that the tenants included the proper percentage of qualifying low-income. These tenants paid market rent, either from their own pockets or with the assistance of rent subsidies received from government programs.

The former CFO of \_\_\_\_\_ did not employ any special measures to deter the use of illegal drugs by residents of the apartment complex, nor did the organization as operated by the former CFO offer any anti-drug programs on the premises. The complex was able to generate approximately \$ \_\_\_\_\_ in rents and cash surpluses approaching \$ \_\_\_\_\_ a year. In addition, the property valued at approximately \_\_\_\_\_ in 19XX, was used as collateral to obtain loans of \_\_\_\_\_ and \_\_\_\_\_ in 20XX and 20XX respectively.

In 20XX, the former CFO purchased a truck racing team through \_\_\_\_\_. At first, the team was called the "\_\_\_\_\_ " team, but later operated as \_\_\_\_\_. Cash surpluses were used to provide operating funds to the race team and race team expenses were deducted as "program service" expenses on the Form 990. The former CFO claimed that the team was used to publicize \_\_\_\_\_ anti-drug message, however this effort was limited to logos and publicity appearances by a former driver for the team. At least \$ \_\_\_\_\_ of the cash used to provide team operating funds was obtained by the refinancing of the complex, thus significantly depleting \_\_\_\_\_ assets.

In 20XX, the former CFO transferred \$ \_\_\_\_\_ from \_\_\_\_\_ to his personal account to finance the production of a film called "\_\_\_\_\_". The production company was \_\_\_\_\_ and the former CFO was the executive producer.

In 20XX, the former CFO began a campaign for political office. He claimed to have loaned his campaign \$ \_\_\_\_\_, but at least \$ \_\_\_\_\_ of the funds were transferred from a \_\_\_\_\_ bank account to his personal account. His campaign reported that it raise only \$ \_\_\_\_\_ in campaign contributions during that period.



Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No.
		Year/Period Ended December 31, 20XX-20XX

The former CFO was removed from office in 20XX. The control of the organization was eventually turned over to the present director who transferred the main remaining asset, \_\_\_\_\_ to an unrelated 501(c)(3) organization. A property located in \_\_\_\_\_ which had been used for the NASCAR team was seized by the lienholder, \_\_\_\_\_, in approximately 20XX. Consequently, since 20XX, \_\_\_\_\_ has no remaining assets.

For the tax years December 31, 20XX, 20XX, 20XX, 20XX and 20XX, the organization engaged in no exempt activities, and had no revenue.

The organization's status as a non-profit in the state of \_\_\_\_\_ has been suspended, and has not been re-instated. (Exhibit 1)

On October 20, 20XX articles of dissolution were sent to the state of \_\_\_\_\_ in an attempt to dissolve the corporation. The state of \_\_\_\_\_ requires that delinquent State income tax returns be filed and processed before the organization may be dissolved with the state. The organization's intension is to proceed with these actions.

**Law:**

Internal Revenue Code Section 501(c)(3) provides for tax exemption to organizations operated exclusively for charitable purposes. Treas. Reg. § 1.501(c)(3)-1(c)(1) provides that 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 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.

Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Effective date of revocation

An organization may ordinarily rely on a favorable determination letter received from the Internal Revenue Service. Treas. Reg. § 1.501(a)-1(a)(2). An organization may not rely on a favorable determination letter, however, if the organization omitted or misstated a material fact in its application or in supporting documents. In addition, an organization may not rely on a favorable determination if there is a material change, inconsistent with exemption, in the organization's character, purposes, or methods of operation after the determination letter is issued. Treas. Reg. § 601.201(n)(3)(ii); Rev. Proc. 2008-9, Section 12

The Commissioner may revoke a favorable determination letter for good cause. Treas. Reg. § 1.501(a)-1(a)(2). Revocation of a determination letter may be retroactive if the organization omitted or misstated a material fact or operated in a manner materially different from that originally represented. Treas. Reg. § 601.201(n)(6)(i), Rev. Proc. 2008-9, Section 12.

**Government's Position:**

As stated the organization \_\_\_\_\_ performed limited activities for exempt purpose prior to 20XX, and since 20XX no activities for exempt purposes, or otherwise have been performed.

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No.
		Year/Period Ended December 31, 20XX-20XX

Section 501(c)(3) requires that the exempt organization be organized and operated exclusively for religious, charitable, etc purposes.

Based on the forgoing analysis, the government holds that is no longer operating for exempt purposes.

**Taxpayer's Position:**

The taxpayer has expressed an interest in terminating the organization, and has attempted to do so with the state of . Administrative procedures have not allowed the termination to be finalized. This report is being forwarded to the organization to allow them to agree to revoke their status as an exempt organization for federal tax purposes.

**Conclusion:**

The organization is no longer exempt under IRC section 501(c)(3) effective 1/1/20XX. Effective for the tax year ending December 31, 20XX and all subsequent years until corporate dissolution, the organization should file form 1120, corporate income tax returns for any year during which it meets form 1120 filing requirements. Records show that for the tax year 20XX, 20XX and 20XX the organization has no income, expenses or assets.

It is recommended that that exempt status of this organization be Revoked as of January 1, 20XX.