



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
TEGE EO Examinations Mail Stop 4920 DAL
1100 Commerce St.
Dallas, Texas 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Number: 201630016
Release Date: 7/22/2016

Date: April 11, 2016

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:

UIL Code: 501.04-00

CERTIFIED MAIL – RETURN RECEIPT

Dear _____ :

This is a final adverse determination regarding your exempt status under section 501(c)(4) of the Internal Revenue Code. Our favorable determination letter to you dated September 19XX is hereby revoked and you are no longer exempt under section 501(a) of the Code effective January 1, 20XX.

The revocation of your exempt status was made for the following reason(s):

Organizations described in IRC 501(c)(4) and exempt under section 501(a) must be operated exclusively for exempt purposes. You have failed to establish that you are operated exclusively for exempt purposes and that no part of your net earnings inures to the benefit of private shareholders or individuals.

To be exempt under IRC 501(c)(4) an organization cannot be organized or operated for profit and it must operate exclusively to promote social welfare, per Treas. Reg. section 1.501(c)(4)-1(a)(2)(i). The facts stated on the Form 990 and the examination revealed you have a substantial amount of income (92.56%) from your _____ operation. That amount of income would indicate your primary purpose is your _____. Although you do contribute grants and benefits for social welfare purposes, it is not your exclusive purpose. Because you have devoted most of your time to the _____, you have not been able to substantially use your time to fulfill your purposes listed in the Articles of Incorporation. You have not performed enough of the activities stated in the Articles of Incorporation such as, "To foster and encourage the training and education of all citizens regardless of economic station, in order that a true democracy may exist among all of our citizens." The IRC Section 501(c)(4) clearly states organizations should not carry

on business with the general public in a manner similar to organizations which are operated for profit. It is clear your _____ is not operated for an exempt purpose. Therefore, you have not met the requirements to remain exempt under IRC 501(c)(4).

You are required to file income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for the tax year beginning January 1, 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 under the declaratory judgment provisions of section 7428 of the Code, a petition to the United States Tax Court, the United States Claims Court, or the district court of the United States for the District of Columbia must be filed before the 91st Day after the date this determination was mailed to you. Please contact the clerk of the appropriate court for rules regarding filing petitions for declaratory judgments by referring to the enclosed Publication 892. You may write to the United States Tax Court at the following address:

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

You also have the right to contact the Office of the Taxpayer Advocate. 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 prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service
Office of the Taxpayer Advocate

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

Sincerely,

Paul A. Marmolejo
Acting Director, EO Examinations

Enclosures:

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: May 28, 2015

Taxpayer identification number:

Form:

Tax year(s) ended:

Person to contact/ID number:

Contact numbers:

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

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)(4) be revoked for all years beginning on January 1, 20XX, due to the public operation of _____ as the primary activity.

FACTS: The Organization was founded in October in 19XX. The Organization received its ruling date September 19XX under the Group Exemption Number XXXX from the Internal Revenue Service. The Organization's Articles of Incorporation Article III, states the purpose:

"The objects and purposes of the Corporation shall be as follows:

- (1) To _____ .
- (2) To _____ .
- (3) To _____ .
- (4) To _____ ; and
- (5) To _____ .

OPERATION

The Organization's website states the operation times of the _____ are from Tuesday to Saturday from 11:00 a.m. to 9:00 p.m. except Thursday the _____ starts at 10:30 a.m. Sunday hours are from 8:30 a.m. to 7:30 p.m. The website lists all the closing times are at the management's discretion. The _____ on Mondays. The website lists the following Holidays that they are closed are New Year's Day, Easter Sunday, Mother's Day, Thanksgiving and Christmas Day. The days that the _____ generally closes early are New Year's Eve and Christmas Eve is listed on the website. The _____ contains an _____ and _____. These times are also listed at the _____.

FORM 990 and 990-T

The revenue reported on the Form 990, for the _____ is \$ _____. The total revenue reported on the Form 990 is \$ _____ (\$ _____ /\$ _____ = _____). The Cost of Goods Sold (COGS) for the _____ and _____ totals \$ _____. The Cost of reported on the Forms 990-T and the 990. In addition, there were other deductions of \$ _____ for the _____ on the Form 990-T. The total of _____ expenses totals \$ _____. The total expenses listed on the Form 990 are \$ _____ (\$ _____ /\$ _____ = _____).

Form 990

<u>Revenue</u>		<u>Expenses</u>	
Membership Dues	\$	Grants to Govt & Orgs	\$
Fundraiser Events	\$	Grants to Individuals	\$
Govt Grants	\$	Benefits	\$

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
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All Other Contri	_____ \$	Other Salaries & Wages	_____ \$
Total	===== \$	Total	===== \$

These are revenue & expenses that relate to their Social Welfare Purpose.

ACTIVITIES

Inspected the Scholarship bank Account and it had receipts of \$ _____ . The income is received from various fundraisers:

- ↓ _____ is usually _____ raffles or pools. Some type of fundraising event while the _____ plays in the _____. There were deposits made from the Winter F/R in February, March, October and December.
- ↓ _____ of \$ _____ in April usually in the spring.
- ↓ _____ can be done every week. The 20XX year deposited \$ _____ for meat raffles in _____.
- ↓ _____ comes from the sale of Fireworks of \$ _____ in _____. (This is new because _____ is now able to sale fireworks in the last few years.)
- ↓ _____ of \$ _____. The _____ was the original account for Scholarships. Initially they gave out scholarships for _____. Now they give scholarships for all higher education, technical schools included.
- ↓ The Organization has their scholarship program open to anyone in the _____ area. The Article III of the AOIs state _____.

LAW

I.R.C. § 501, 26 U.S.C.A. § 501

Exemption from tax on corporations, certain trusts, etc. 501(c)(4)(A) Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

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

(B) Subparagraph (A) shall not apply to an entity unless no part of the net earnings of such entity inures to the benefit of any private shareholder or individual.

1.501(c)(4)–1 Civic organizations and local associations of employees.

(a) Civic organizations—(1) In general. A civic league or organization may be exempt as an organization described in section 501(c)(4) if—

- (i) It is not organized or operated for profit; and
- (ii) It is operated exclusively for the promotion of social welfare.

(2) Promotion of social welfare—(i) In general. An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements. A social welfare organization will qualify for exemption as a charitable organization if it falls within the definition of charitable set forth in paragraph (d)(2) of § 1.501(c)(3)–1 and is not an action organization as set forth in paragraph (c)(3) of § 1.501(c)(3)–1.

(ii) Political or social activities. The promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. Nor is an organization operated primarily for the promotion of social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of its members, or is carrying on a business with the general public in a manner similar to organizations which are operated for profit. See, however, section 501(c)(6) and § 1.501(c)(6)–1, relating to business leagues and similar organizations. A social welfare organization that is not, at any time after October 4, 1976, exempt from taxation as an organization described in section 501(c)(3) may qualify under section 501(c)(4) even though it is an action organization described in § 1.501(c)(3)–1(c)(3)(ii) or (iv), if it otherwise qualifies under this section. For rules relating to an organization that is, after October 4, 1976, exempt from taxation as an organization described in section 501(c)(3), see section 504 and § 1.504–1.

The Taxpayer and the Taxpayer's Power of Attorney are in agreement of the recommendation of revocation. The _____ started as a fundraiser many years ago. The Organization did not know it would result in a popular and lucrative _____ business.

GOVERNMENT'S POSITION:

The revenue reported on the Form 990, for the _____ is \$ _____. The total revenue reported on the Form 990 is \$ _____ (\$ _____ /\$ _____ = _____). The total of expenses _____.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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totals \$. The total expenses listed on the Form 990 are \$ (\$ /\$ =). The conclusion of these figures resulted in % of the revenue not related to the and % of the expenses are for expenditures other than the .

To be exempt under IRC 501(c)(4) an organization cannot be organized or operated for profit and it must operate exclusively to promote social welfare, per Treas. Reg. section 1.501(c)(4)-1(a)(2)(i). The facts stated on the Form 990 and the examination revealed the Organization has a substantial amount of income (%) from the operation. That amount of income would indicate the primary purpose of the Organization is the . Although the Organization does contribute grants and benefits for social welfare purposes, it is not the Organization's exclusive purpose. Because the Organization has devoted most of its time to the , it has not been able to substantially use its time to fulfill the purposes listed in the AOs. The Organization has not performed enough of the activities stated in the AOs such as, " .” The IRC Section 501(c)(4) clearly states organizations should not carry on business with the general public in a manner similar to organizations which are operated for profit. It is clear the is not an exempt purpose. Therefore, the Organization has not met the requirements to remain exempt under IRC 501(c)(4).

Due to the fact that the Organization has conducted activities that are not within the purview of Internal Revenue Code Section 501(c)(4), the Internal Revenue Service is proposing that the exempt status of this organization be revoked for all years beginning on or after January 1, 20XX. Please submit the Form 1120, *U.S. Corporation Income Tax Return* for the tax periods ending January 1, 20XX, 20XX and 20XX. You will also be required to file the Form 1120 for the period ending January 1, 20XX.

Please send the signed returns and report to:

Attn:
Internal Revenue Service