



DEPARTMENT OF THE TREASURY

**Internal Revenue Service
TE/GE EO Examinations**

1100 Commerce Street, MC 4920DAL
Dallas, TX 75242

**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

Date: March 14, 2017

Release Number: **201732031**
Release Date: 8/11/2017
UIL Code: 501.03-00

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:

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 section 501(c)(3) of the Code and exempt under section 501(a) of the Code must be both organized and operated exclusively for exempt purposes and must serve public rather than private interests. Our examination of your activities and finances revealed that you are not operated exclusively for charitable, educational, or other exempt purposes within the meaning of section 501(c)(3) of the Code. Additionally, our examination revealed that your operations more than insubstantially served private interests. Such actions are inconsistent with the requirements to operate exclusively for purposes set forth in section 501(c)(3) of the Code and to maintain exempt status.

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

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 in the heading of this letter.

Sincerely yours,

for Maria Hooke
Director, Exempt Organizations Examinations

Enclosures:
Publication 892



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities Division
Exempt Organizations Examinations
324 25th St Rm 6025 Mail Stop 1112
Ogden, UT 84401

Date:
November 17, 2016
Taxpayer Identification Number:

Form:
990-N
Tax year(s) ended:
December 31, 20XX
Person to contact/ ID number:

/
Contact numbers:
Toll Free
Long Distance
Fax:
Manager's name/ ID number:
/
Manager's contact number:

Response due date:
December 15, 20XX

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 may also 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

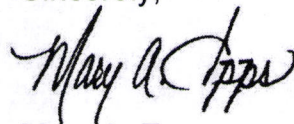
Phone Number:

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,



Mary A. Epps
Acting Director, Exempt Organizations Examinations

Enclosures:
Report of Examination
Form 6018
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

Date of Notice: November 17, 2016
Initial Report

Issues:

Whether organization qualifies for exemption under Section 501(c)(3) of the Internal Revenue Code?

Facts:

was incorporated under the laws of the State of on June 27, 20xx.
Per the organization's Articles of Incorporation, they were formed for the following purposes:

"Exclusively for charitable, educational, religious, or scientific purposes, within the meaning of 501(c)(3) of the Internal Revenue Code."

During the audit the Organization was asked on Form 4564, *Information Document Request*, dated June 20, 20xx for a detailed description of each of their activities conducted during the year under examination.

Per phone conversation of June 28, 20xx with the Treasurer of stated the organization is a small organization and they considered dissolving. The organization was formed to make the name official and to obtain a bank account. The board members of the organization suggested applying for exempt status in hopes to obtain grants.

Per written response dated June 29, 20xx; is mainly an umbrella for artists who have art studios in the community. Most of the Artists are hobbyists. is a name solely used to promote or bring about one annual art show event. In all actuality, activities, and/or 501(c)(3) exempt purpose really does not help . The main reason the organization applied for exempt status was that maybe they could apply for a grant from the art board or another non-profit art organization to help with funding to promote the annual art show. A grant was never explored.

The main activity of the organization is to promote or bring about one annual art show event. The art event is open studios sales and show. The main purpose of the organization was formed and operated by a group of artist for the purpose of exhibiting and selling their work. The art show is open to the public but no indication that educational or charitable activities are conducted.

Law:

Section 501(c)(3) of the Internal Revenue Code provides, in part, for the exemption from federal income tax to organizations organized and operated exclusively for charitable, religious or educational purposes where no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Treas. Reg. Section 1.501(c)(3)-1(a)(1) provides that, in order to be exempt as an organization described in section 501(c)(3) of the Code, an organization must be both organized and operated

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
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exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Treas. Reg. Section 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.

Section 1.501(c)(3)-1(d)(ii) of the regulations 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, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Revenue Ruling 71-395, 1971-2 CB 228 - A cooperative art gallery formed and operated by a group of artists for the purpose of exhibiting and selling their works does not qualify for exemption under section 501(c)(3) of the Code.

Organizations Position:

No rebuttal at this time.

Government's Position:

Section 501(c)(3) of the Code sets forth two main tests for qualification for exempt status. An organization must be both organized and operated exclusively for purposes described in section 501(c)(3).

The Organizations Articles of Incorporation provided states the "corporation is organized exclusively for charitable, religious, educational, and scientific purposes, within the meaning of 501(c)(3) of the Internal Revenue Code" and the appropriate dissolution clause for a 501(c)(3). As a result _____ satisfies the organizational test required by sections Section 1.501(c)(3)-1(b)(1)(i) of the Regulations.

However, _____ does not meet the requirements of Section 1.501(c)(3)-1(c)(1) of the Regulations, which requires them to engage primarily in activities which accomplish one or more exempt purposes. Since they are operating for the substantial private benefit of their providers and members they are not operating exclusively for charitable, educational, religious or scientific purposes.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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In analysis of the current description of activities, the organization's activities do not meet the operational requirements for a 501(c)(3) exemption. Although it provides some benefit to the public, a substantial purpose of the organization is promoting the services of the members

Conclusion:

Based on the facts and circumstances presented, _____ does not qualify for recognition of exemption from federal income tax as an organization described in section 501(c)(3) of the Code. You are not organized and operated exclusively for exempt purposes as set forth in section 501(c)(3).

Your net earnings inure to the benefit of your providers and members, who are private individuals.

As a result, we conclude that you are not operated exclusively for public rather than private purposes. We conclude based on the stated facts that you do not qualify for tax exemption because more than an insubstantial part of your activities is not in furtherance of exempt purposes.

Accordingly, the organization's exempt status is revoked effective January 1, 20xx.