



**DEPARTMENT OF THE TREASURY**

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

**TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION**

Date: **MAY 24 2018**

Person to Contact:

Number: **201843016**  
Release Date: **10/26/2018**

Identification Number:  
Telephone Number:  
In Reply Refer to:

LAST DATE FOR FILING A PETITION WITH  
THE TAX COURT:

**UIL: 501.03-00**

**CERTIFIED MAIL - Return Receipt Requested**

Dear :

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code (IRC). Our favorable determination letter to you dated June 3, 20XX, is hereby revoked and you are no longer exempt under section 501(a), as an organization described in section 501(c)(3) of the IRC, effective January 1, 20XX.

Our adverse determination was made for the following reasons:

You have not established that you are organized and operated exclusively for an exempt purpose or that you have been engaged primarily in activities that accomplish one or more exempt purposes within the meaning of IRC section 501(c)(3).

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

Contributions to your organization are no longer deductible under section 170 of the 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 December 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 Court of Federal Claims 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. 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. 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,



Maria Hooke  
Director, Exempt Organizations Examinations

**Enclosures:**  
Publication 892



Department of the Treasury  
Internal Revenue Service  
Tax Exempt and Government Entities  
Exempt Organizations Examinations

Date:  
March 13, 2018  
Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact:

Employee ID:  
Telephone:  
Fax:  
Manager's Contact Information:

Employee ID:  
Telephone:  
Response Due Date:

**CERTIFIED MAIL – Return Receipt Requested**

Dear \_\_\_\_\_ :

**Why you're receiving this letter**

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(3).

**If you agree**

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(3) for the periods above.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

**If you disagree**

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to

sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

**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 adverse determination letter.

**Contacting the Taxpayer Advocate Office is a taxpayer right**

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 [www.taxpayeradvocate.irs.gov](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

**For additional information**

You can get any of the forms and publications mentioned in this letter by visiting our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676).

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,

for Maria Hooke  
Director, Exempt Organizations  
Examinations

Enclosures:

Form 4621-A, *Exempt Organizations – Report of Examination (Proposed Status Changes)*  
Form 886-A, *Explanation of Items*, and Exhibits I through XI  
Form 6018, *Consent to Proposed Action*  
Publication 892  
Publication 3498

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>	Schedule number or exhibit
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**ISSUES**

1. Is more than an insubstantial part of \_\_\_\_\_ activities providing commercial services?
2. Do the activities of \_\_\_\_\_ more than incidentally benefit tour and travel businesses that operate within the tourism industry?
3. Does \_\_\_\_\_ conduct exclusively exempt activities and thus meet the operational test under Section 501(c)(3) of the Internal Revenue Code?
4. Should \_\_\_\_\_ exemption under Section 501(c)(3) of the Internal Revenue Code be revoked because it fails the operational test by conducting substantial commercial activities that promote the tourism industry and privately benefit tour and travel businesses that operate within the tourism industry?

**FACTS**

**State Incorporation and Organizational Information**

( ) incorporated on March 21, 20XX as a not-for-profit corporation under state law. The Articles of Incorporation provide that \_\_\_\_\_ will have no voting members. In an attached statement with the filed Articles of Incorporation, \_\_\_\_\_ describes its purposes as exclusively charitable, religious, literary, scientific and educational purposes, including the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code (Code).

Upon the dissolution of the corporation, after payment of liabilities, the board of directors shall dispose of all assets exclusively for the purposes of the corporation or to such organizations organized exclusively for charitable, religious, literary, scientific or educational purposes that qualify as an exempt organization under Section 501(c)(3) of the Code.

\_\_\_\_\_ registered as a foreign (out-of-state) corporation in the state of \_\_\_\_\_ on June 20, 20XX. Although this registration was administratively dissolved for failure to file annual reports in 20XX and 20XX, the organization filed for reinstatement of its foreign corporate registration with the state of \_\_\_\_\_ each time and is currently shown in good standing.

By-laws describe the same purposes as stated in the Articles of Incorporation and include acquiring gifts and donations to be donated to other charitable entities. The Bylaws state \_\_\_\_\_ affairs shall be managed by a board of directors. The number of directors shall be ( ) and they shall be elected annually. Each director shall hold office until his successor is duly elected and qualified or until his death or resignation. A director may be removed for cause by a unanimous vote of all directors then in office. Vacancies occurring on the board of directors shall be filled by the board of directors. In the event the entire board of directors is vacant and there are no directors available to fill the vacancies by appointment, the vacancies shall be filled by appointments made by the closest heirs of the person who last served as a director of the corporation. Officers of the corporation are elected annually by the board of directors and include president, one or more vice-presidents, secretary, treasurer, and any other offices the board

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determines are necessary. The president is the principal executive officer and subject to the direction and control of the board of directors.

### **Exemption Application**

filed a Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, on April 10, 20XX. The application and its attachments described its purposes and activities as follows:

1. Develop, market, and adopt standards for environmental business practices; advocate for the implementation of said practices across the travel and tourism industry so that resource managers and travelers can easily identify authentic environmental travel and eco-tourism operators.
2. Provide eco-certification for tourism operators who incorporate financially viable, environmentally and socially responsible practices into their operations, so consumers can buy and book with confidence.
3. Increase and develop consumer demand and awareness (of) environmental business practices across the travel and tourism industry, so that tourism operators move towards more environmental business practices.
4. Commit to the conservation and enhancement of quality travel experiences and actively contribute to community-based and grass-root conservation projects, so the travel and tourism industry advances as a whole and available resources are reinvested in our natural resources.

While Article II of the Bylaws states the corporation shall have no members, marked on its exemption application that it did have members and described its members as tourism operators who are committed to incorporating financially viable, environmentally and socially responsible practices into their operations. described the benefits members receive in exchange for membership dues as follows:

- Consulting services (0 hours annually) designed to increase your company's profitability through integrating sustainable travel practices into your organization's operations and helping to streamline your operating systems
- Public relations efforts (0 times annually) focused on helping to influence consumers current and future travel and tourism industry employees, and opinion leaders about companies that make sustainability their responsibility.
- Monthly electronic newsletter
- Inclusion of member's company logo and rating and a link to your website in newsletter.
- Listing in web-based -directory (0-word profile plus on image)
- Listing in members database with your company's rating, Premium partner members are allowed a 0-word profile, supporting business members a 0 word profile and contributing individual members a 0 word profile
- Voting Rights – 1 vote per member

Initially, the IRS was not certain that purposes and activities met the requirements for exemption under Section 501(c)(3) of the Code. IRS correspondence with during the application process stated that developing, adopting, and marketing standards for environmental business practices for the travel and

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tourism industry appeared to be a purpose designed to promote and increase business opportunities for the travel and tourism industry. Additionally, providing certification for operators in the eco-tourism business is a further indication that the organization's purpose is to promote the eco-tourism and travel industry. Combine the above with the promotion and awareness campaign for consumers, it appeared that the purposes and the activities designed to carry out those purposes were not charitable or educational within the meaning of Section 501(c)(3) of the Code. Any protection afforded the environment from the organization's activities would be indirect and not the organization's primary purpose.

In response, stated it had misspoke in its exemption application as to actively marketing sustainable travel and tourism operators to consumers. then stated it did not intend to promote any individual tour operators, nor seek to improve the travel industry, but rather it is focused exclusively on building awareness, appreciation and respect for local people and the environment. In its last statement, clarified that its purposes and activities are exclusively charitable and educational. It will educate US travelers about traveling in a responsible, sustainable manner and educate US tourism providers about how to integrate financially viable, environmentally and socially responsible practices into their operations. To help achieve this, will provide related educational and training materials for travelers and tourism providers. It will develop a voluntary certification program to measure tourism provider's positive and negative environmental, economic, and social-cultural impacts that will help travelers identify tourism providers committed to best practices for . Finally, stated Sustainable Business Consulting will not be part of . All references to Sustainable Business Consulting and the services offered was removed from website.

Based upon the above clarifications, the IRS issued on June 3, 20XX a favorable determination for exemption under Section 501(c)(3) of the Code.

**Annual Filing and Examination**

filed annual returns Form 990, *Return of Organization Exempt From Income Tax*, for tax years 20XX to the current tax year. The IRS selected for examination the Form 990 returns for tax years ending December 31, 20XX and December 31, 20XX.

**Public Information**

During the examination, the IRS obtained information about the organization from public sources such as the Secretary of State website for the charitable organizations registered with them (**Exhibit I**). This website shows as established 03/21/20XX and initially registered 06/25/ 20XX. shows its charitable purposes on this charities website as follows:

is organized to: develop, market and adopt standards for sustainable / environmental business practices; advocate for the implementation of said practices across the travel and tourism industry and consumer marketplace; and to provide eco-certification for tourism operators; and promote organizations that demonstrate support for environmental conservation, socio-cultural responsibility and economic profitability within the travel and tourism industry. ( ) was founded to build awareness, appreciation and respect for local people and our environment through education and outreach. The organization has been providing consumers and travel related businesses and organizations with the tools and resources necessary to achieve sustainability since September 20XX. has provided printed copies of its guide to sustainable travel and tourism to over 0 business owners interested in integrating responsible practices into their business operations, distributed the document electronically from its web site, and has sold more than 0 copies of its reader on sustainable travel

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and tourism to college students. In addition, management team is invited to speak at dozens of major international and domestic conferences and events annually, affording the opportunity to reach thousands of leaders within the travel and tourism industry. management team is also invited to speak to college students on a regular basis. With more than 0 unique e-newsletter recipients from over 0 countries and 0 media contacts, is regarded as one of the best sources for eco- and information and resources in the travel and tourism industry. And, as an industry specific, globally respected independent 501(c)(3) non-profit, is very effective at gaining public exposure and media traction for industry leader partners.

### Organization's Website

Also, during the examination, IRS reviewed website starting in November 20XX. website is www. .org and at that time it showed an extensive selection of services for tour operators.

developed tools and standards to allow destinations and businesses to assess their progress environmentally, socially and economically and to ensure that the tourism industry was driving conservation and alleviating poverty. developed the program, a self-assessment tool and Eco-certification. The process assists travel providers in mitigating their negative environmental, economic, and socio-cultural impacts and maximizing the benefits they provide to the environment, local and indigenous people and their communities. Businesses (travel providers) can sign up annually and complete an online self-assessment which identifies and measures key impacts of sustainability and provides ways to implement industry best practices. Benefits from this annual membership include exclusive webinars, marketing opportunities, and a consultation with an ( ) eco-certification specialist. Certification is accomplished by submitting to the business' Required Policies and Documentation for review and approval. The final process includes an on-site assessment performed by a local -Accredited Assessor. Annual fees for the self-assessment tool range from \$0 to \$0, and the certification is a one-time fee ranging from \$0 to \$0. The fees for the on-site assessment depend on many factors and were not shown on the website. All fee ranges depend on the gross revenues of the businesses and whether the business is a member of or not.

website also offered two certification programs for travel professionals working on tourism-related projects in developing countries, including staff from donor and government agencies, non-governmental organizations, consulting firms, universities, businesses, and other entities. The certifications center around completion of course material and testing using the Online Tool Kit and Resource Series' first course entitled: website provided a link for the training program to the website maintained by ( ). describes the program as follows:

*Specialist* and *Professionals* programs are designed to give you the skills and knowledge necessary to facilitate professional growth and maximize your career opportunities in this diverse, exciting and expanding industry. Designed with travel and tourism professionals of all experience levels in mind, from entry-level to executive, the *Specialist* and *Professionals* programs provide successful applicants with a formal credential and a dynamic professional development opportunity. The cutting-edge self-paced courses utilized in the program feature developed content.

The first certification program, *Specialist*, required a fee of \$0 for the certification. The participant must demonstrate one year of experience within the tourism industry, complete the 0 units in the



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first course entitled: \_\_\_\_\_, and complete the timed course content examination. The 0 units covered the following topics:

- Introduction to \_\_\_\_\_
- Tourism Policies, Practice, and International Cooperation
- \_\_\_\_\_ Tools and Strategies
- The Green Economy and Tourism
- Tourism, Trade, and Development
- Biodiversity Conservation and Protected Areas
- Collaborative Mechanisms and Social Networks
- \_\_\_\_\_ Standards and Quality Assurance Systems

The second certification program, \_\_\_\_\_ *Professional*, required a fee of \$0 for the certification. The participate for this certification must demonstrate 0 years of experience within the tourism industry, complete the same course and examination describe above for the \$0 certification, plus complete 0 out of 0 additional courses within the Online Tool Kit and Resource Series along with the timed examination for each of the three additional courses.

The 0 additional courses the \_\_\_\_\_ *Professional* participant can choose from within the Online Tool Kit and Resource Series of \_\_\_\_\_ course material are as follows:

- Project Development for \_\_\_\_\_, A \_\_\_\_\_ by \_\_\_\_\_ Approach
- Tourism Destination Management, Achieving Sustainable and Competitive Results
- Tourism Investment and Finance, Accessing Sustainable Funding and Social Impact Capital
- \_\_\_\_\_ Enterprise Development, A Business Planning Approach
- Tourism Workforce Development, A Guide to Accessing and Designing Programs
- Scientific, Academic, Volunteer, and Educational Travel, Connecting Responsible Travelers with Sustainable Destinations
- Tourism and Conservation, Sustainable Models and Strategies
- Powering Tourism, Electrification and Efficiency Options for Rural Tourism Facilities

\_\_\_\_\_ website at the time stated industry leaders are taking advantage of the benefits and opportunities sustainable business practices offer. The website stated, “\_\_\_\_\_” And “\_\_\_\_\_”

\_\_\_\_\_ The website continued saying

“

”

Also, \_\_\_\_\_ described its Eco-certification as “a program to help travelers identify responsible tourism businesses and to help tourism business manage their environmental impact while helping to offset the CO2 emissions resulting from travel.” Finally, the website stated, since 20XX \_\_\_\_\_ has helped communities, hotels, airlines, cruise lines and governments to plan responsibly — to chart their road maps for responsible growth so that they can contribute to the economic and social well-being of the one in eleven people around the globe whose lives and livelihoods depend on the world’s wanderlust. At that time \_\_\_\_\_ had helped more than 0 destinations to protect their natural and cultural assets, enhanced the experience of

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millions of visitors and increased the livelihoods of millions of people living in travel and tourism destinations globally.

**Form 990 return information - Revenues**

For the tax years ending December 31, 20XX and December 31, 20XX, the organization's Form 990 reported the following revenues:

**CHART DELETED**

The categories and description of the revenue are explained below.

**Member dues**

For tax years 20XX and 20XX annual membership dues were \$0 for premium partner members, \$0 for supporting business members, and \$0 for contributing individuals. Members also pay an annual membership fee, an application fee for Eco-certification and other program fees. The fees and annual membership fees are based on the member's gross revenues. The examination reviewed the QuickBooks accounting records and found that the revenue reported as membership dues on the Form 990 is program membership and invoiced travel reimbursements for the program certifications, planning and assessments. The program is explained in a brochure provided during the examination (**Exhibit II**).

**Grants, Contributions, Donations**

Grant revenues received in the tax 20XX tax year were included with the total for contributions and donations. A grant from ( ) in the amount of \$0 (see **Exhibit XI**) was reclassified at the end of the 20XX tax year to the contributions and donations category from the program service revenue category. A sponsorship payment of \$0 from was included in this category. The remaining contributions and donations for the 20XX tax year were primarily from sales receipts of B2C (business-to-consumer) purchases. These are portions of payments individual consumers pay to (a for-profit travel documents service provider) for products and services where a percentage of the fee or additional amount is "donated back" to either the organization or for designated environmental projects or carbon offset projects. In the 20XX tax year, however, many of the amounts shown in the contributions category reported on the Form 990 return are also invoiced amounts for services like carbon management program, project retainers, or work performed with travel companies such as Finally, receives in this category funds for the ( ) per a contract agreement with . The majority of the funds collected in this program are reported back over to the with the exception of the 15 percent administrative fee due for the administration of the program on behalf of .

**Educational and advisory services**

records show this revenue includes payment for speaker fees, webhosting for carbon calculators, retainers for management systems and on-going support, retainers for industry training, on-site assessments, sales, technical assistance contracts, and marketing workshops. The services were purchased by a cruise line, tour companies, hotels, airlines, overseas tourism development agencies and counsels, university, and other tourism industry entities. This revenue includes amounts released over time for contracts in progress from . and for contracted services and from in Development Plan.

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The Form 990 reporting for tax year 20XX also included in this category revenues under the QuickBooks account for Assessments, Planning & Sustainable Marketing, which included amounts from \_\_\_\_\_ for quarterly reports and roll out # \_\_\_\_\_ of the \_\_\_\_\_. See brochure provided during the examination that provides additional information on what business solutions \_\_\_\_\_ offers to travel industry businesses (**Exhibit III**).

**Standards, monitor, training**

This revenue was paid by hotels, universities, tourism ministries, and travel businesses. \_\_\_\_\_ invoiced and received retainers and fees for businesses sustainability management systems and sustainability standards; managing, promoting, and producing webinar series for industry and assessor training; standards development and monitoring; and \_\_\_\_\_. The training material contains business management material for strategic planning to grow a business in sustainable travel and tourism. It presents the financial opportunities and advantages, challenges, planning, history and accepted criteria of growing a business in sustainable travel and tourism.

**Assessment, planning, marketing**

This revenue includes contract labor; managing, promoting, and producing webinar series and media marketing campaigns; submissions and reporting for contracts in progress, and installments for programs, such as the early adopters program. Many of this work is also described in the business solutions brochure provided during the examination (**Exhibit III**).

**Education Networks**

The revenue reported on the Form 990 return for this category included revenues from carbon offset credits, carbon credit calculator, terra pass and algorithm project, payments for a \_\_\_\_\_, and annual participation fees in the \_\_\_\_\_ (\_\_\_\_\_ and \_\_\_\_\_). Fees were paid by airlines, hotels, cruise lines, and other travel and tour businesses. The QuickBooks accounting showed revenues reported in this category under partnerships and marketing. This network is explained in a brochure provided during the examination (**Exhibit IV**).

**Carbon sales**

Carbon sales and the trading of carbon offsets on the public market, including foreign markets, is revenue is from B2C sales of \_\_\_\_\_ & \_\_\_\_\_ calculators, united booking path, and united static path calculator. The organization accepts contributions from individuals and businesses to offset their carbon use. The amounts are invested in projects that reduce greenhouse emissions and stimulate demand for renewable energy. The organization has contacts with several carbon offset providers. A liability is recorded based on contractual terms with those providers for metric tons of carbon sold by \_\_\_\_\_. The carbon offset liability is paid based on terms with each provider. For the 20XX tax year, these carbon sales are reported in with the grants, contributions, and donations reporting on the Form 990.

**All other Program Service Revenue**

This revenue is primarily from \_\_\_\_\_ sales and \_\_\_\_\_ Standard sales paid by hotels and tour shore excursion operators for Eco-certifications and assessments. \_\_\_\_\_ developed and markets “\_\_\_\_\_ Framework” to meet challenges of managing multiple operations and resources. \_\_\_\_\_ provides online tools that allows multiple users, roles, access, and shared resources. To meet the challenge of data collection, \_\_\_\_\_ provides data collection, aggregation of sustainability indicators, and monitoring results for individual operations. \_\_\_\_\_ regularly markets \_\_\_\_\_ as the world’s first comprehensive, global sustainable certification program offered by a non-profit. (Also see **Exhibit II**.)

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**Samples of Contracted Work**

**Exhibit V – Agreement with ( ) \$0**

This contract is for a grant project originally executed in 20XX and this is a fourth amendment to the original contract. will receive a total of \$0 as a fee for activities and travel reimbursements. The contract outlines responsibilities and deliverables. Condensed responsibilities and deliverables are shown below:

- I. Continue working with shore excursion providers.
  1. 20XX Action Plan – streamline a multi- approach for certification process
  2. Design and implement 0 hands-on training workshops for tour operators
  3. Design and deliver an online/offline tour verification system
  4. Continue to implement an outreach and awareness campaign
  5. Design an incentive program to ensure Excursion team achieves its goals
  
- II. Continue working with and its select partners providing technical advice.
  1. Telephone support – up to 0 meetings via telephone
  2. Onsite consultation including awareness training, technical advising, creating an action plan
  
- III. Continue providing assistance and support to staff as they complete *Professionals* training and certification program.
  
- IV. Help to position as a leader in
  1. Develop an online Destination Management system about Destination sustainable management performance
  2. Facilitate one on-site meeting to review progress, enlist support, and solicit feedback
  
- V. Project management of all deliverables and communications.
  1. Technical Advisory and feedback to
  2. Quarterly meetings via teleconference with and project managers
  3. Monthly progress reports
  4. Two on-site meetings of 1-2 days

**Exhibit VI – Contract with \$0**

This contract is for consulting services on the Development for Inclusive Green Growth in beginning April 19, 20XX and ending March 15, 20XX. The contract fee is no greater than \$0, which is broken down as \$0 remuneration for staff of 0 based upon a number of days and daily fee and \$0 in reimbursed expenses that includes airfare, hotels, meals, and transportation costs. Payment of fees are upon attaining deliverables:

- o signing of contract and submission of work plan
- o submission of final
- o submission of final action and investment plan
- o submission of monitoring database and guidelines
- o submission of final recommendations report

**Exhibit VII – Project Agreement with \$0**

This project agreement for contracted services is effective August 26, 20XX and continues to June 30, 20XX. will be paid a fee of \$0 for a Tourism Development Plan. This plan includes Brand Development,

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Establishing Destination Marketing Company(s), Establishing a Tourism Dashboard, and Maintaining Implementation Support. Travel expenses will be billed separately from the contract fee.

deliverables include:

- Market demand assessment, tourism product and attraction inventory, mapping of Destination, product development recommendations, risk and security assessment plans
- work plans, vision and goal plans, zoning recommendations, economic modeling results
- draft and final development plans with presentations, forums for feedback, market analysis
- develop criteria and guidelines for implementation, develop indicators for community tourism impact monitoring, train the trainer programs, pilot testing, data collectors
- 0 days technical support averaging 0 days per month over the course of 9-12 months, 0 training sessions,

**Exhibit VIII** – Contract with \_\_\_\_\_ (dba \_\_\_\_\_) \$0

This contract is effective June 30, 20XX for the contracted work for Phase 3 of the \_\_\_\_\_ (\_\_\_\_\_) will provide the following:

- a) Manage and administer \_\_\_\_\_ operations on an ongoing basis, maintaining operational systems, accounting procedures and internal controls; providing participating businesses with administrative and technical support; awarding funds to projects
- b) Provide technical support to \_\_\_\_\_ (\_\_\_\_\_) on new and existing projects; review, provide feedback on \_\_\_\_\_ marketing collateral; support \_\_\_\_\_ marketing strategy; support roll-out of implementation plan; determine how to expand the fund to include other philanthropic causes; contact \_\_\_\_\_ lodging partners to introduce them to the fund; conduct quarterly meetings to assess performance
- c) Draft a Two-Year Implementation Plan to improve funding partner participation to generate more project funding
- d) Refine orientation and training program, train management and frontline staff of new participating businesses and improve overall staff buy-in and support; review and set up procedures to align donation mechanisms into booking transactions; review and set up accounting procedures and internal controls; develop train the trainer programs for participating businesses to train their staff on the \_\_\_\_\_ funding process
- e) Train potential new participating businesses at the 20XX \_\_\_\_\_ Governor’s Conference, staff the booth, and meet with existing and potential new participating businesses

The deliverables of this contract include

- Ongoing \_\_\_\_\_ operations management up to 0 hours per month
- 0- 0 page Implementation Plan
- Training up to 0 participating businesses
- \_\_\_\_\_ Training Guide
- Train the Trainer Program
- Participating in the 20XX \_\_\_\_\_ Governor’s Conference on Tourism

**Exhibit IX** – Sub-Grant Agreement with \_\_\_\_\_ for \_\_\_\_\_ project \$0

This sub-grant agreement covered August 1, 20XX to November 5, 20XX. The purposes of the grant were to provide specific activities and deliverables for the \_\_\_\_\_ (\_\_\_\_\_) in \_\_\_\_\_

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partnership with other stakeholders. The following activities and deliverable were to be conducted and provided:

- Preliminary assessment finding for
- Compile a Listing of \_\_\_\_\_ and \_\_\_\_\_ ( ) training participants
- Compile Listing of citations of accepted publications, papers on research subsidized by
- Compile \_\_\_\_\_ MOUs and agreements
- Report on cash match, in-kind match, and other funds secured by \_\_\_\_\_ for \_\_\_\_\_ work

**Exhibit X – Early Adopter Program Agreement with Global \_\_\_\_\_ Council \$0**  
 This agreement was made on October 5, 20XX to continue until February 28, 20XX. (named “Consultant” in this agreement) will conduct on-site evaluations of Global \_\_\_\_\_ Council ( ) Early Adopter tourism Destination participants. \_\_\_\_\_ will determine each Early Adopter participant’s sustainability in economic, environmental, and socio-cultural issues and report findings back to \_\_\_\_\_ on how each Destination met current tourism sustainability standards. \$0 will be paid for each Destination (up to 0 selected destinations).

**Sample of Grant Award**

**Exhibit XI – Grant Award from \_\_\_\_\_ ( ) \$0**  
 This grant from the \_\_\_\_\_ was awarded to \_\_\_\_\_ for its proposal for the International \_\_\_\_\_ Toolkit and pilot in \_\_\_\_\_ prepared a year-end report on this project describing how it created a monitoring tool called ( ). The \_\_\_\_\_ system provides a plug-and-play means to collect, manage and monitor data on performance. Two destinations participated in a pilot program to receive Destination assessment, customized indicators, and a database system for recording their results.

The grants funds were also used for three destinations’ implementation projects. The three destinations included \_\_\_\_\_ and \_\_\_\_\_, and \_\_\_\_\_. The \_\_\_\_\_ and \_\_\_\_\_ Destination received Professionals online training program for 0 government officials in \_\_\_\_\_ and one in-person session for 0 officials on sustainable Destination management in cruise destinations and marine conservation. The \_\_\_\_\_ project received a \_\_\_\_\_ ( ) and action plan for \_\_\_\_\_. Finally, the funds designated for the \_\_\_\_\_ project were used to bring together Destination stakeholders in a workshop setting to develop an action agenda for Destination sustainability. \_\_\_\_\_ provided technical assistance to assess the feasibility of establishing quality and sustainability Destination standards program for tour operators and hotels.

**Form 990 return information - Expenses**

For the tax years ending December 31, 20XX and December 31, 20XX, the organization’s Form 990 reported the following expenses:

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## CHART DELETED

### Examination – Interview with Chief Executive Director,

During the examination interview, the revenue agent asked the then-current Chief Executive Officer (CEO) and founder, \_\_\_\_\_, to explain the claims on its initial exemption application information that would remove the business consulting services from \_\_\_\_\_ materials yet consulting appears to be a substantial part of \_\_\_\_\_ current activities. \_\_\_\_\_ explained that the term “consulting” is simply a difference in semantics. When \_\_\_\_\_ provides advisory services and technical assistance, often that is called a consultation or consulting services. However, \_\_\_\_\_ explained, \_\_\_\_\_ doesn’t offer consulting services; rather, \_\_\_\_\_ offers tools and advisory services to innovate and involve the clients in the process. \_\_\_\_\_ has programmatic offerings to companies and destinations.

The examiner asked \_\_\_\_\_ to explain \_\_\_\_\_ regional offices in \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ as described on its website. \_\_\_\_\_ clarified that the offices may have been overstated, but they have representatives in different parts of the world. They had established charitable organizations in the \_\_\_\_\_ and \_\_\_\_\_ but those organizations have stopped functioning prior to the examination.

\_\_\_\_\_ states on its website that its program is a cost-effective way to illustrate a Destination’s commitment to \_\_\_\_\_, including access to a service of sustainable solutions and marketing benefits. IRS asked \_\_\_\_\_ to explain “marketing benefits” of \_\_\_\_\_ Destination partner’s programs. \_\_\_\_\_ said the concept is to benefit all \_\_\_\_\_ and in an inclusive way.

IRS asked \_\_\_\_\_ to explain what it describes on its website for a “solution activity” as “Marketing and Communications.” The website states \_\_\_\_\_ will help businesses integrate sustainability into their marketing and product development strategy, leading to increased visitor numbers and stronger brand loyalty. \_\_\_\_\_ explained that \_\_\_\_\_ tried to help increase sustainability in travel by communicating the impacts and benefits and integrate producers.

IRS asked if any type of verification is done on the data that tour businesses input to rate themselves on “impact counter” since the data is used to “demonstrate tangible improvements to the lives of at least 0 million people” (“\_\_\_\_\_”). \_\_\_\_\_ said no verification is done.

\_\_\_\_\_ explained the eco-certification program was originally for individual companies but \_\_\_\_\_ could benefit more members by their package program. Additionally, individuals can voluntarily donate a dollar when they purchase services from companies.

\_\_\_\_\_ explained that their training courses differ from training given to travel agents to promote sales of eco-friendly travel because \_\_\_\_\_ training is not geared towards offering travel service rather it’s toward how to support sustainable travel and how to link to supply chains.

IRS asked if donors receive anything in exchange for their donation. \_\_\_\_\_ said some grants are tied to outcomes, for other grants services are provided.

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## LAW

Section 501(c)(3) of the Internal Revenue Code (Code) provides, in part, exemption from federal income tax for organizations that are organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, 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) provides that in order to be exempt as an organization described in Section 501(c)(3) of the Code, the organization must be both organized and operated exclusively for one or more of the purposes specified in that section. If an organization fails to meet either the organizational or operational test, it is not exempt.

Regulations 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 that accomplish one or more of such exempt purposes. Further, 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 1.501(c)(3)-1(c)(2) specifies that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Regulations Section 1.501(a)-1(c) defines private shareholder or individual within this Section 501 as persons having a personal and private interest in the activities of the organization.

Regulations Section 1.501(c)(3)-1(d)(1)(ii) provides that 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, an organization must establish that it is not operated for the benefit of designated individuals or the persons who created it.

Regulations Section 1.501(c)(3)-1(d)(3)(i) defines education as:

- A. The instruction or training of the individual for the purpose of improving or developing his capabilities, or
- B. The instruction of the public on subjects useful to the individual and beneficial to the community.

Regulations Section 1.513-1(b) defines the term "trade or business" to include any activity carried on for the production of income from the sale of goods or performance of services and which otherwise possesses the characteristics required by Section 162 of the Code (relating to the deductibility of business expenses). The phrase "for profit" was intended to describe the commercial nature of the activities and not to refer to whether an actual profit is made.

## **Rulings and Case Law**

### *Commercial Purpose, Performance of Services*

Revenue Ruling 72-369 describes an organization that was formed to provide managerial and consulting service at cost to unrelated exempt organizations does not qualify for exemption. Providing managerial and consulting services on a regular basis for a fee is a trade or business ordinarily carried on for-profit. The



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services provided at cost and solely for exempt organizations is not sufficient to characterize the activity as charitable within the meaning of Section 501(c)(3) of the Code.

In *B.S.W. Group, Inc. v. Commissioner*, 70 T.C. 352 (1978), the court found that a corporation formed to provide consulting services did not satisfy the operational test under Section 501(c)(3) of the Code because its activities constituted the conduct of a trade or business that is ordinarily carried on by commercial ventures organized for profit. Its primary purpose was not charitable, educational, or scientific, but rather commercial. In addition, the court found that the organization's financials did not resemble that of the typical organization exempt under Section 501(c)(3) of the Code. It had not solicited nor received voluntary contributions from the public. Its only source of income was from fees from services, and those fees were set high enough to recoup all project costs and produce a profit. Finally, the corporation did not limit its clientele to organizations that were exempt under Section 501(c)(3) of the Code.

In *American Institute for Economic Research v. United States*, 302 F. 2d 934 (Ct. Cl. 1962), the Court considered the status of an organization that provided analyses of securities, industries, and of the economic climate in general. The organization sold subscriptions to various periodicals and services providing advice for the purchase of individual securities. Although the court noted that education is a broad concept and assumed for the sake of argument that the organization had an educational purpose, it held the organization had a significant non-exempt commercial purpose that was not incidental to the educational purpose. It was, therefore, not entitled to exemption under Section 501(c)(3) of the Code.

#### *Educational*

Revenue Ruling 71-504 ruled that a medical society currently exempt under Section 501(c)(6) of the Code may not be reclassified as an educational or charitable organization under Section 501(c)(3) of the Code. The ruling listed all the activities of the society and identified those that made up a substantial portion of the society's total activities. While some of the society's activities were charitable and/or educational, a substantial part of its activities was directed primarily at the promotion of the medical profession and thus furthered the common business purposes of its members, activities that are not considered educational or charitable. Therefore, the society may not be reclassified since it had substantial non-charitable and non-educational purposes and activities.

An educational program must be conducted for exclusively educational purposes, with only incidental nonexempt purposes. In Revenue Ruling 59-6, a professional association was held not exempt under Section 501(c)(3) of the Code where its educational program was only an incidental part of activities that had as a principal purpose the professional advancement of the members as a group.

#### *Economic Development*

In Revenue Ruling 77-111 exemption was denied to two organizations and their described activities. One organization sought to increase business patronage in an economically deteriorated area by promoting the area through media advertising and other means. The other organization sought to revive lagging retail sales and combat economic decline of an urban area by constructing a shopping mall to make the area more competitive with outlying shopping areas. Although the first organization's activities may further charitable purposes, their overall thrust was to promote all businesses in the area, regardless of whether they were experiencing a hardship or considered part of a charitable class. The second organization failed to further charitable purposes because its activity primarily benefited the businesses located in the newly constructed shopping center.

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*Environmental, ecological significant land*

In Revenue Ruling 78-384, an organization preserving ecologically significant land for farming or other uses the organization deemed ecologically suitable was not found to be operated for a charitable purpose under Section 501(c)(3) of the Code. Its activities were not found to be preserving land that had any distinctive ecological significance, and any benefit to the public from the organization's self-imposed use restriction was too indirect and insignificant to establish that the organization served a charitable purpose.

( cited the following two revenue rulings in its Form 1023 application for exemption.)

Revenue Ruling 76-204 describes an environmental conservancy formed by scientists, educators, conservationists, and representatives of the community at large to acquire and preserve natural environments of ecological significant undeveloped land. The ruling determined the conservancy qualifies for exemption under Section 501(c)(3) of the Code since it maintains the land and limits public access for protection of delicate eco-systems.

Revenue Ruling 80-278 holds that an organization that institutes litigation as a party plaintiff to maintain environmental protections afforded in state and federal legislation operates exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Code. The organization does not bring suits in instances where a substantial purpose is to benefit a private party or interest. The litigation program is financed by membership dues and public donations. The ruling states, in determining whether an organization meets the operational test, the issue is whether the particular activity undertaken by the organization is appropriately in furtherance of the organization's exempt purpose, not whether that particular activity in and of itself would be considered charitable. The organization described in the ruling accomplishes the exempt purpose of preserving and protecting the natural environment for the benefit of the public by instituting litigation to force agencies to enforce the legislation already in place that protects the environment. The activity of entering into law suits is not, in and of itself, charitable; however, in this instance it does further an exempt purpose and is reasonably related to accomplishing that purpose.

*Establishing and Maintaining Standards of Quality*

Revenue Rulings 73-567 and 74-553 found organizations formed by members of the medical profession to establish and maintain standards for quality and excellence in service qualified for exemption under Section 501(c)(6) but not under Section 501(c)(3) of the Code. The principal activity of both organizations in both rulings was directed to establishing and maintaining standards for the quality and costs of medical services. Although this activity may result in a measurable public benefit, the primary objective in both cases was to maintain the professional standards, prestige, and independence of the organized medical profession and thereby furthers the common business interest of the organization's members.

*Private versus Public Interests*

In the case *Christian Stewardship Assistance, Inc. v. Commissioner, 70 T.C. 1037 (1978)*, the organization failed to establish that it served a public interest rather than a private interest. The organization was formed to assist charitable organizations in their fundraising activities with individual contributors. The organization provided financial planning and tax advice to individual contributors on charitable giving so that they could maximize their charitable donations and tax benefits. The organization said their financial planning advice ultimately benefits charities through the contributor's donations. The court ruled that the financial and tax

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planning services were a nonexempt activity and the tax benefits inuring to the contributors are more than insubstantial in nature. Exemption under Section 501(c)(3) of the Code was not allowed.

In another case, *American Campaign Academy v. Commissioner*, 92 T.C. 1053 (1989), an organization that operates a school to train individuals to fill positions in political campaigns was found to serve the private interests of entities and candidates of a particular political party and did not, therefore, have broad public benefit. This was true even when no portion of the net earnings inured to the benefit of private shareholders or individuals. The court clarified that the proscribed private benefit under Section 501(c)(3) of the Code includes benefits to unrelated third parties and that size alone will not per se transform a benefited class into a charitable class.

*Other*

In *Better Business Bureau of Washington, D.C., Inc. v. United States*, 326 U.S. 279 (1945), the Court held that the presence of a single non-exempt purpose, if substantial in nature, will preclude exemption regardless of the number or importance of truly educational or charitable purposes.

**GOVERNMENT'S POSITION**

*Commercial Purpose, Performance of Services*

The examination of the books and records for found that a substantial part of activities are providing commercial services. activities include selling administrative and marketing services to the travel and tour industry business owners. provides business consultations; marketing, administrative, computer, and technical assistance; certification; and employee training services to its members, tourism businesses and professionals, and other tourism-related entities. Many of these services are per contracted agreements. The examination found that a substantial portion of the revenue reported is revenue from the sale of or provision of services, including the revenue reported as grants and member dues.

The majority of revenue is compensation for business support services. Many of the services are often sold as a packaged deal as in their membership package. In the 20XX tax year reported \$0 as member dues yet the examination of the records shows that most (\$0) of this is payment for contracted services provided as part of the membership, such as certifications, document assessments, monitoring and on-site assessments. This demonstrates that membership revenue is not considered supportive membership dues, but rather fees for services.

For the 20XX tax year reports \$0 of income from educational and advisory services and \$0 from standards and monitoring training. In both of these categories, businesses can select services such as research and development, computer program and website development, contracted certification and monitoring, consultation, marketing, business support, and business development education. In the 20XX tax revenues, all of the above categories were shown in program service revenues. Many of the advisory and consulting services provides to its members and clients are explained in the Business Solutions brochure (**Exhibit III**). helps businesses with Action Plans for sustainability, marketing assessment and marketing plan development that enhance brand identify and loyalty. The fees collected in these revenue categories all relate to providing the advisory, consulting, assessment, monitoring, and business development services to travel and tourism industry businesses.

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Other revenue sources of services to members and tourism businesses or customers is shown in the category for assessment, planning, and marketing. In the 20XX tax year reported revenue of \$0 in this category. The examination of the books and records showed that revenue in this category was for management services, promotion, producing media marketing, submissions reporting, and installment payments for programs, such as the early adopters program. The invoices, contracts, and receipts viewed during the examination showed these activities as advisory and consulting services provided on a fee basis. In the 20XX tax year almost half of revenue was reported in program service revenue for these activities and services. Many of these services are also included in the brochure provided during the examination (**Exhibit III**).

The grant from ( ) in the amount of \$0 (**Exhibit XI**) was reclassified at the end of the 20XX tax year to the contributions and donations category. However, during the year, the QuickBooks accounting showed the income for this project being reclassified monthly from contracts in progress and in the following categories: assessments, standards and monitoring, and planning. The same reporting for contracts in progress with was found in the 20XX tax year QuickBooks accounting as well. Thus, considered this funding as program service revenues for services because of the work performed for this grant proposal and client.

Another revenue category reported in the 20XX tax year was for educational networks. reports \$0 revenue in this category. However, the examination found the accounting records show that many of these payments are for carbon offsets, carbon credit calculator, and marketing campaigns. For the 20XX tax year, the educational networks revenues from and were included with program service revenues as well as in the partnerships and marketing category. The purposes of these networks are more to assist the businesses within the industry network to trade ideas, solutions and share lessons learned (see **Exhibit IV**). This activity and its membership serves the interests of the member businesses and is not considered an educational or charitable activity within the meaning of Section 501(c)(3) of the Code.

reports for the 20XX tax year its carbon sales as \$0. This revenue is received from computer programs set up by to track carbon sales from customers of travel and tourism companies who designate a portion of their purchases from these travel and tourism companies to go to environmental and conservation programs. However, also receives revenues in the donations category that customers can designate as a donation for a carbon offset. has contracts with several carbon offset providers and re-directs donations and sales received by these computer programs to the carbon offset providers for credit retirement from designated conservation projects. Carbon sales revenues are actually higher than the above amount for the tax year 20XX when the portions of the donations category that are for carbon sales are considered. Therefore, true donation revenues for 20XX are lower than reported and the carbon sales should be higher. For the 20XX tax year, all of the carbon sales are reported in the contributions category and reported as such on the Fm 990 return. Thus, the carbon sales activity appears to be an understated revenue source. Finally, donations for carbon offsets are not true donations and are not tax-deductible donations under Section 170(c) of the Code. As such, the carbon sales are non-exempt, commercial sources of revenue.

reported \$0 of other revenue in the tax year 20XX that is from sales of its Framework. This on-line computer programming provides hotels and tour operators a tool for data collection, data indicator aggregation, monitoring, and results that are designed to fit each business.

The majority of these income sources are from business support services that provides to for-profit companies or other tourism-related industry entities such as hotels, tours, cruise and airline companies.

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The revenue is not from activities that are solely educational. The education provided by is only a part of its package of commercial services. While some of the activities can be considered educational, goes further and provides support services to its members and clients. These support services help the businesses and clients to implement the programs. The services are not just advisory; they provide administrative and technical support, as well as on-going monitoring that members and clients pay for with their annual membership and/or contract fees. These services are priced at or near commercial rates and meant to cover the costs of providing those services, including fees meant to cover the travel costs associated with on-site consultations, assessments, and training.

A general internet search finds several for-profit businesses that offer similar services to travel and tour businesses teaching and offering certification for a fee. These businesses also offer strategy, development, consulting, environmental management, research, business planning, marketing and communications for the tourism industry. ( ). operations are in direct competition with these for-profit businesses that offer the travel and tourism industry similar services of training, certification, and benchmarking for businesses to achieve a high level of sustainability.

The sampling of the contracts and agreements signed during the 20XX tax year describe the numerous services and deliverables provides its members and clients. Some of the contracts and agreements even define the services provides as consulting services and define as the "consultant." The deliverables are more than just educational trainings and workshops. They are deliverables that are meant to improve a client's sustainability practices, and ultimately the environment, but also, in turn, improve the economic standing of the business. Many of the contracts state will design marketing and awareness campaigns meant to showcase businesses to consumers to entice them to conduct business with them because they have eco-friendly practices. The eco-certifications are specifically marketed to clients and members so that eco-friendly consumers will be able to recognize the eco-friendly businesses to which they'll want to transact business. The other commercial services described in the contracts include technical support and monitoring. These services are beyond educational classes and workshops.

is similar to the entities described in Revenue Ruling 72-369 and the court cases, *B.S.W. Group, Inc. v. Commissioner* and *American Institute for Economic Research v. United States*. The organizations in these cases provided management and consulting services on a regular basis for a fee. The services were provided in a commercial manner similar to for-profit entities. operates similarly in a commercial manner through competitive advertising that consistently includes emphasis of the profit to be made from the lucrative and growing market of eco-tourism or green products. provides technical and consulting services and support to clients who seek its services for a fee similar to for-profit entities that provide these services to the travel and tourism industry. As the one court case noted, education is a broad concept; but if an organization has a significant non-exempt commercial purpose that is not incidental to the educational purpose, exemption cannot be allowed. is similar to the entity in this ruling where does provide education and trainings; however, the full range of additional services, management, assessments, analysis, marketing, and technical assistance offered to tourism businesses and industry clients is more than an insubstantial part of offerings to its members and clients. The additional services help their clients incorporate sustainable business practices that will also improve their economic profitability. These activities further commercial, non-exempt purposes more than incidentally.

*Educational*

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is similar to the entities described in Revenue Rulings 71-504 and 59-6 where the organizations had some charitable and educational activities, but a substantial part of their activities were directed primarily at the promotion of the business profession and thus furthered the common business purposes of its members. As noted above, the services provided by help improve their member and client businesses through the implementation of sustainability business practices. The educational activities have the ultimate objective of increasing sales of the travel and tourism entities. promotes the use of its services and eco-certification programs to its clients and members because eco-tourism and green products are a growing market. The on-line, certification training and course material is substantially about how to run a travel business and increase profits by tapping into the growing market of eco-travelers. The sections for marketing clearly prove this point. is marketing to tourism businesses, educating them, advising them, and helping them present themselves to the eco-friendly customers as eco-friendly and a better choice than non-eco-friendly businesses. This demonstrates that knows its programs will more than incidentally improve their member and client businesses; and this business improvement is more than an incidental by-product of the eco-sustainability purposes of . The educational and commercial services provided by are a substantial part of activities and they further the business purposes of its members and clients.

Finally, the purposes of educational efforts are not educational as defined by the Regulations: to improve an individual or develop his capabilities. Their educational programs primarily serve to improve the businesses, entities, and groups in the tourism industry. While the educational programs may ultimately benefit the environment and indigenous communities, it is only through the improvement of the tourism businesses that operate in that environment and in those communities. The education is to the professionals and businesses in the tourism industry on how to improve their business practices; their educational programs only indirectly benefit the communities as a whole.

*Economic Development*

is similar to the organizations described in Revenue Ruling 77-111 because its purposes and activities are not limited to a charitable class of businesses – those that are in an economically declining area or operating in an economically declining industry. will work with and assist any tourism related entity or business, regardless of the economic profitability or size of the business. Two of largest clients are well-known travel industry giants, and programs more than incidentally improve the tourism businesses they work with and even promote the fact that the business will improve because consumers are looking more and more for eco-friendly businesses.

It is possible that some individuals who may be described as a charitable class under Section 501(c)(3) of the Code may benefit incidentally from activities. While some of training materials and their website promote improvements to indigenous poor or disadvantaged people, it is only through the improvements to the tourism industry businesses and groups that conduct their activities (by following guidance) in those areas. training, services, and tools are directed to improve the businesses that operate in those areas with the overall, but indirect or incidental, goal of improving those indigenous communities. An incidental benefit to a charitable class is insufficient to meet the requirements for exemption under Section 501(c)(3) of the Code.

*Environmental, ecological significant land*

is similar to the organization described in Revenue Ruling 78-384 where the ecological preservation is too indirect for the organization to exclusively further charitable purposes. purpose of protecting the environment is an indirect result of operations. members and clients must utilize trainings,

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programs and proposals, and operate within those guidelines before the environmental preservation and protection purposes are achieved. programs and assistance to their members and clients directly serve the needs of those members and clients with only an indirect and incidental public benefit.

activities do not directly conserve, protect, or restrict the use of sensitive land to protect the natural environment. provides information on the benefits of environmentally friendly travel and offers technology, tools, trainings, and consulting services to businesses and the travel and tour industry that will assist those entities to preserve the environment. The trainings and services themselves do not preserve or protect the environment in a manner that exclusively furthers a charitable or educational purpose within the meaning of Section 501(c)(3) of the Code. Any charitable benefit is incidental to the direct benefit to travel and tour businesses that can increase tour and travel sales by self-identifying with 's endorsement and marketing themselves as "green."

In its initial application for exemption, cited both Revenue Rulings 76-204 and 80-278 stating its activities furthered charitable purposes similarly to the organizations in those rulings. However, activities are not directly or reasonably related to the accomplishment of a charitable purpose. In those rulings, the organizations either acquired land for preservation or filed lawsuits against entities to enforce environmental protections already in place by legislation. does not do either of these activities. Rather, encourages and assists travel and tour industry businesses to become eco-friendly, marketing this concept to them not only because of the environmental protection aspect, but because it will give them a competitive marketing edge. With the eco-certification, eco-conscience consumers will choose those companies over non-certified companies to transact business because the consumer has the perception (because of the -endorsed certification) that those businesses operate in ways that are not detrimental to the environment. Those businesses without certification will lose that segment of consumers and thus lose profits. The eco-certification brings in more eco-conscience consumers, which in turn, increases profits to members' businesses. This is a direct benefit to travel and tour industry businesses resulting from 's programs and activities. Encouraging businesses to operate in environmentally friendly ways and enticing consumers to transact with these businesses is not a direct means for accomplishing the charitable purpose of preserving or protecting the environment. programs benefit the member businesses and travel and tour industry significantly, with the environmental protections only accomplished as an incidental consequence. Additionally, unlike the organization described in 80-278, 's funding is not primarily from membership dues or public donations; the majority of revenue is from sale of their services and programs. Finally, unlike the organization described in Revenue Rulings 76-204, is not controlled by scientists, educators, conservationists, and representatives of the community at large; board is made up of representatives involved in for-profit travel and tourism businesses.

#### *Establishing and Maintaining Standards of Quality*

eco-certification program is similar to the program to maintain standards for quality and excellence in service in the medical profession described in Revenue Rulings 73-567 and 74-553. The organizations in these rulings were requesting an exemption change from Section 501(c)(6) to 501(c)(3) of the Code. However, the ruling determined the standards and monitoring benefited the medical profession and furthered the common business interests of its members rather than resulting in any measurable public benefit. eco-certification program similarly benefits the certified businesses as described above by making them more attractive to eco-friendly consumers. This activity does not provide a measurable public benefit or further a charitable purpose within the meaning of Section 501(c)(3) of the Code.

#### *Private versus Public Interests*

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The majority of members and clients are for-profit travel and tourism businesses and professionals and assists them to increase their business and their profits. Even though has some educational activities and conducts some research and development projects for specific conservation groups and communities, the examination found that provides a substantial amount of non-exempt commercial activities and services to for-profit travel and tourism businesses. These services benefit the for-profit businesses by helping them meet sustainability standards that are attractive to eco-friendly consumers with the two-fold goal of eco-sustainability and increased sales and profitability. Thus, a substantial part of operations result in conferring private benefits to the travel industry businesses (non-charitable, private interests). Any public benefit resulting from the help provides the businesses to increase their eco-sustainability practices is indirect and incidental to the benefits realized by the industry businesses from the increased consumer patronage.

is similar to the organization discussed in the court case, *Christian Stewardship Assistance, Inc. v. Commissioner*, where the court found that the activity conducted to further charitable purposes more benefited the private interests of the clients receiving the financial planning. The court ruled that financial and tax planning services were nonexempt activities and the benefits of such activities to the recipients were more than insubstantial. The situation is the same with provision of commercial services – management, monitoring, assessing, technical assistance, administrative, marketing, and design consultations. These services and assistance benefit the travel and tourism industry and businesses substantially through increased eco-friendly consumer patronage.

As determined in the ruling in the case, *American Campaign Academy v. Commissioner*, the size of a benefited group does not transform them into a charitable class. activities and services primarily assist private, for-profit companies, such as hotels, tour companies, cruise lines and airlines, as well as tourism-related commercial operators, travel Destination groups, and other tourism-industry entities. Assistance to these mostly commercial operators does not further a broad public benefit. The commercial operators' businesses improve from services and programs. That serves the private interests of those commercial businesses more than incidentally. It overrides the public and charitable benefit of environmental and eco-system preservation.

*Other*

activities primarily help private, commercial operators, travel corporations, and travel Destination groups to develop and sell their products/services or promote and encourage tourism in particular areas. The services provides to for-profit tourism industry businesses more than incidentally benefits those non-charitable interests (as noted above) and, as such, further non-exempt purposes. While some of on-line training courses and activities are considered educational and some of research and development work with other conservation groups may further a charitable purpose of preserving the environment, the examination found that a significant part of 's activities are the provision of non-exempt, commercial services. As shown in the case, *Better Business Bureau of Washington, D.C. v. United States*, the presence of a single non-exempt purpose, if substantial in nature, will eliminate an organization's exemption regardless of the number or importance of truly exempt purposes.

stated in its exemption application that member benefits included "consulting services designed to increase your company's profitability" and "public relations efforts" meant "to influence consumers." While later clarified that it misspoke about the consulting services, these, in fact, are what provides to its members and clients for fees and/or per contractual agreements. The examination found that the majority



Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATIONS OF ITEMS</b>	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended 12/31/20XX 12/31/20XX

of activities are providing various services including marketing, tracking systems, technical assistance and monitoring, assessments, and consultation services directly to travel and tourism industry entities. Additionally, several projects worked during the 20XX and 20XX tax years assisted tourism industry committees or groups to identify ways and means to improve tourism such that the environment is preserved and/or protected. It appears that the IRS' initial response during 's exemption determination process remains true – certification of tourism business operators, combined with the promotion and consumer awareness campaigns, indicate the primary purposes are to promote the eco-tourism and travel industry. Any protection afforded the environment from the organization's activities is indirect and not the organization's primary purpose.

The carbon offset sales activity is the trading of carbon offsets on the public and foreign markets. The revenue received from this source, including the amounts reported as donations, are not true donations. only acts as a conduit to collect carbon credits for offsets. The trading of carbon offsets is not an exempt activity under Section 501(c)(3) of the Code. Therefore, the revenue reported on the Form 990 return for this activity is non-exempt revenue.

The examination found that a significant amount of the activities conducted by are commercial services provided to members and tourism industry clients. These are considered non-exempt activities. The carbon offset sales activity is also considered a non-exempt activity. The activities appear to more benefit the travel and tourism industry with any protection afforded the environment an indirect benefit. These factors show that a substantial part of activities are non-exempt activities that do not further charitable or educational purposes within the meaning of Section 501(c)(3) of the Code. Thus, operations do not meet the operational test under Section 501(c)(3) of the Code.

## TAXPAYER'S POSITION

The organization has preliminarily agreed to the revocation of exempt status as outlined in the initial report.

## CONCLUSION

does not meet the operational test under Section 501(c)(3) of the Code. More than a substantial part of activities are the provision of non-exempt commercial services and carbon offset sales. The advisory and consulting services and assistance provided to their for-profit business members and clients in the travel and tourism industry privately benefit these non-charitable interests more than incidentally.

Therefore, exempt status under Section 501(c)(3) of the Code should be revoked as of January 1, 20XX, the first day of the tax year for the year under examination. Contributions, donations and grants to will not be not deductible under Section 170 of the Code starting in the 20XX tax year. will be required to report its income for the 20XX tax year and thereafter on Form 1120, *U.S. Corporation Income Tax Return*.