



**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: **SEP 182018**

Number: **201903020**  
Release Date: 1/18/2019

Person to Contact:  
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 December 6, 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 operated exclusively for an exempt purpose or that you have been engaged primarily in activities that accomplish one or more exempt purposes as required by Treas. Reg. section 1.501(c)(3)-1(c)(1), and that no part of your net earnings inure to the benefit of private shareholders or individuals.

You failed to provide information and documents to allow the Internal Revenue Service to examine your receipts, expenditures, or activities as required by the Code sections 6001 and 6033(a)(1). As such, you failed to meet the operational requirements for continued exemption under section 501(c)(3) of the Code and Treas. Reg. section 1.501(c)(3)-1(a)(1).

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 91st 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

**Internal Revenue Service**  
**Tax Exempt and Government Entities Division**  
Exempt Organizations: Examinations

**Department of the Treasury**

**Date:**

April 23, 2018

**Taxpayer Identification Number:**

**Form:**

**Tax Year(s) Ended:**

**Person to Contact/ID Number:**

**Contact Numbers:**

Telephone:

Fax:

**Manager's name/ID number:**

**Manager's contact number:**

**Response due date:**

**Certified Mail – Return Receipt Requested**

Dear ..

**Why you are receiving this letter**

We propose to revoke your status as an organization described in section 501(c)(3) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

**What you need to do if you agree**

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(3).

After we issue the final revocation letter, we'll announce that your organization is no longer eligible for contributions deductible under section 170 of the Code.

**If we don't hear from you**

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

**Effect of revocation status**

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

**What you need to do if you disagree with the proposed revocation**

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You also may file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

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

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service  
Office of the Taxpayer Advocate

**For additional information**

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

*Peter Jensen*

for Maria Hooke  
Director, EO Examinations

Enclosures:  
Report of Examination  
Form 6018  
Publication 892  
Publication 3498

Form <b>886-A</b> (May 2017)	Department of the Treasury - Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended 20XX

**ISSUE:**

Should the exempt status of ( ) be revoked for its failure to operate exclusively for exempt purposes as required by Internal Revenue Code § 501(c)(3), and failure to abide by the recordkeeping requirements under Internal Revenue Code (IRC) section 6001 and 6033?

**FACTS:**

A referral was made claiming ( ) solicited contributions from the public on its website, encouraged donors to designate the patients' name for whom the donation would be made. In addition, it appears that had a relationship with (" "), a for-profit entity founded in 20XX by three board members, , and was founded to sell franchise of spinal treatment method to other spinal injury rehab centers from 20XX to October of 20XX.

( ) located in of . It was the successor of a for-profit entity named ( ). was founded in 19XX as a rehabilitation center specializing the method for treating spinal injuries. The Method was developed and copyrighted by and . In the year of 20XX they decided to convert their for-profit spinal injuries treatment center ( ) to a nonprofit organization named ( ).

received its exemption in 20XX under Internal Revenue Code (IRC) section 501(c)(3) & 509(a)(2). It had operated as a spinal injury rehabilitation center specializing with the method from 20XX to 20XX. It stated in its Form 1023 application that all the assets of valued about \$0 would be transferred to . will pay annual license fees to for using the method. will have an independent board. Both and would serve as board members and receive salaries. It also stated that will remain totally dormant after the transfer unless and determine that it would be used for other unrelated purposes.

Around 20XX, many of patients could receive treatments of the method at a clinic closer to where they reside. This has caused declining of clientele making it no longer able to generate enough revenue to pay for its rent and employee salaries. In October of 20XX, paid a couple of months of back rents and took over the operation. leased the properties from and conducted the operation as a for-profit business since then. was left to only raising funds for the patients that couldn't afford the treatments. and did not perform any valuation of the assets transferred during this process and did not keep records for this take over. has conducted no other exempt activities since it was taken over by .

POA, stated had worked as a staff member of for several years, he had experience working in the clinic and was persuaded by the prior owners of and the CEO, that the operation would be profitable. parents, and subsequently purchased on June 20XX for approximate \$0 million of which \$0 Million was used to pay for its assets and \$0 million was used to pay for its intellectual property. The payments consisted a portion of cash payment and a promissory note for the remaining balances. Per POA, the sales transaction did not break down the value of the asset, it is difficult to know how much they paid for franchise activities and how much was paid for inheriting the rehab center's clients and

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equipment. POA stated \_\_\_\_\_ felt and his parents were misinformed by the prior owners of \_\_\_\_\_, and financial advisor, \_\_\_\_\_ and \_\_\_\_\_ are now suing the prior owners of \_\_\_\_\_, and \_\_\_\_\_ for fraud and other related claims in an attempt to recoup their losses.

**LAW:**

IRC Section 501(c)(3) exempts from Federal income tax corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

IRC Section 6001 provides that every person liable for any tax imposed by the IRC, or for the collection thereof, shall keep adequate records as the Secretary of the Treasury or his delegate may from time to time prescribe.

IRC Section 6033(a)(1) provides, except as provided in IRC Section 6033(a)(2), every organization exempt from tax under Section 501(a) shall file an annual return, stating specifically the items of gross income, receipts and disbursements, and such other information for the purposes of carrying out the internal revenue laws. The Secretary may also prescribe by forms or regulations the requirement of every organization to keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Treas. Reg. Section 1.6001-1(c) states that in addition to such permanent books and records as are required by paragraph (a) of this section with respect to the tax imposed by section 511 on unrelated business income of certain exempt organizations, every organization exempt from tax under section 501(a) shall keep such permanent books of account or records, including inventories, as are sufficient to show specifically the items of gross income, receipts and disbursements. Such organizations shall also keep such books and records as are required to substantiate the information required by section 6033. See section 6033 and SectionSection1.6033-1 through -3.

Treas. Reg. Section 1.6001-1(e) states that the books or records required by this section shall be kept at all times available for inspection by authorized Internal Revenue Service officers or employees, and shall be retained as long as the contents thereof may be material in the administration of any Internal Revenue law.

Revenue Ruling 59-95, 1959-1 C.B. 627, concerns an exempt organization that was requested to produce a financial statement and statement of its operations for a certain year. However, its records are so incomplete that the organization was unable to furnish such statements. The ruling held that the failure or inability to file the required information return or otherwise to comply with the provisions of IRC Section 6033 and the regulations which implement it, may result in the termination of the exempt status of an organization previously held exempt, because the organization has not established that it is observing the conditions required for the continuation of exempt status.

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Revenue Procedure 90-27 states that if the evidence clearly indicates that the organization will not resume operating for an exempt purpose, as required by Treas. Regs. Section 1.501(c)(3)-1(c)(1), the exempt status should be terminated.

**TAXPAYER'S POSITION:**

\_\_\_\_\_ is agreeing with Agent's proposal for the revocation of its exempt status.

**GOVERNMENT'S POSITION:**

As a result of the cessation of all exempt activities by \_\_\_\_\_ ( ) and the apparent lack of intent to resume its activity. It is the government's position that ( ) does not qualify for exemption under I.R.C. § 501(c)(3). The exempt status of \_\_\_\_\_ shall be revoked for the following reason.

- 1) \_\_\_\_\_ has been inactive since August 20XX, it is apparent that there is no intent to resume operations.
- 2) \_\_\_\_\_ has not conducted any activities other than fund raising from 20XX until its closure in 8/20XX.
- 3) \_\_\_\_\_ failed to provide sufficient records relating to the asset transfer to \_\_\_\_\_ to proof its exempt purpose.

**CONCLUSION:**

The exempt status of \_\_\_\_\_ shall be revoked, effective January 1st, 20XX