



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: AUG 28 2018

Release Number: **201906013**
Release Date: 2/8/2019
UIL: 501.03-00

Person to Contact:
Identification Number:
Telephone Number:
In Reply Refer to:

**LAST DATE FOR FILING A PETITION
WITH THE TAX COURT:**

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 August 21, 19XX, 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 June 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 are not operated exclusively for one or more exempt purposes specified in Section 501(c)(3) of the Internal Revenue Code because you are operated to serve private rather than public interests.

You failed to provide information and documents to reasonable requests 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 May 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 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:
July 11, 2018
Taxpayer Identification Number:

Form:

Tax Year(s) Ended:
May 31, 20XX
May 31, 20XX
Person to Contact:

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

Employee ID:
Telephone:
Response Due Date:
August 9, 2018

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 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 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,

Maria Hooke
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018
Pub 892
Pub 3498

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

ISSUE:

1. Whether _____ books and records showed that it operated exclusively for exempt purposes as described in Section 501(c)(3) of the Internal Revenue Code.
2. Whether _____ books and records showed that net earnings did not inured to the benefit of its officers and family member.
3. Whether _____ failed to keep adequate books and records or other documentation as required under Section 6001 and 6033 of the Internal Revenue Code.

FACTS:

_____ (hereinafter referred to as either "_____" or the "organization") was incorporated on June 26, 19XX under the name of _____ in the Commonwealth of _____. The organization was founded by _____. The purpose of the corporation includes the following: "To further by study, research, publication and teaching the knowledge of real estate development and the application of such knowledge to the improvement of the community, to instruct or train individuals to improve or to develop their capabilities in improving their own communities;". In September 19XX, articles of amendment were filed with the Commonwealth of _____ to change the name of the corporation to _____. On July 19XX, _____, then _____, filed a Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, to request exemption from federal income tax. The Form 1023 application was signed by _____ as President. _____ received exemption in a letter dated August 21, 19XX, as an organization exempt under section 501(c)(3) of the Code further described under section 509(a)(2) of the Code.

On May 2nd, 20XX, _____, filed an Application by Foreign not for Profit Corporation for Authorization to Conduct its Affairs in _____ which was approved. The Form 990 filed for tax year ended May 31, 20XX described the organization's mission as "research Publications and Teaching the Knowledge of Real Estate Development through Seminars and Publications". The Form 990s for the years under examination listed two persons as the governing body namely _____, Treasurer; and _____, President.

Form 1023 Application for Exemption

Information Noted in Form 1023 Application

Page 3, Part III – Activities and Operations Information

- a). Question – Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons"? If yes, please explain. _____ response was no.
- b). Question – Have any members of the organization's governing body assigned income or assets to the organization? If yes, attach a copy of assignment(s) and a list of items assigned. _____ response was "0 seminar manuals, office supplies (\$0 total value).

In question 5, _____ disclosed that it was an outgrowth of a predecessor for profit entity _____ d/b/a _____ in which he had 0%

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

ownership interest. The response stated that _____ conducted seminar series as an individual during June 19XX – May 19XX. Prior to June 19XX, the seminar series were sponsored by _____, a real estate industry publication. _____ conducted the seminar as an individual for the year June 19XX – May 19XX.

The source of revenue was tuition charged based on the cost of conducting the seminars. _____ stated that assets were donated to it by the predecessor organization _____

The application stated that “ _____ has authored a text that is provided to each student and is recognized as the leading text in the field. The Real Estate Development Process Manual is attached hereto as Exhibit “B”. (The manual has not been copyrighted. _____ has contributed any rights to copyright to the applicant).”

_____ was listed on the application as the President, Treasurer, Director. The bylaws was signed by _____ as President.

Expenses listed in the application include printing, postage, mailing house, course materials and list rental.

Notice of Examination & Onsite Visit

On November 8, 20XX, an initial appointment letter (Letter 3611) was mailed via certified to _____ as the notice to conduct an examination of its Form 990 for tax year ended May 31, 20XX. The proposed initial appointment date listed in the letter was December 12, 20XX. Attached to the letter was Publication 1, and Form 4564 Information Documents Request (IDR). The IDR asked _____ to provide certain records needed for the audit. Records requested on the IDR include information necessary to verify that _____ was organized and operated exclusively for tax exempt purposes pursuant to section 501(c)(3) of the Internal Revenue Code (IRC). The IDR also had the following statement included: “* This request is not meant to be all inclusive. additional information may be requested as needed during the examination process.” (See Attachment A for the correspondence sent to the _____ on November 8, 20XX)

On November 16, 20XX, _____ called and requested an extension of time to prepare for the examination. The examination date was changed to January 23, 20XX. Thus, Revenue Agent _____ sent out a second initial appointment letter dated November 17, 20XX to confirm the appointment date of January 23, 20XX. Except for the revised appointment date, the letter was the same as the first letter dated November 8, 20XX. (See Attachment B for the correspondence sent to the _____ on November 17, 20XX).

The address on the Form 990 was _____ . A search of the _____ County Property Appraiser’s website showed the address of a condominium. Although the Form 990 did not list a unit number the website showed that one of the condominium units was owned by _____ and _____

Revenue Agent _____, on Monday January 23, 20XX at approximately 3:00pm, met with _____ (_____ daughter), and _____ CPA, Power of Attorney (POA) at the POA’s office located at _____ . An initial interview was conducted with the attendees. Agent explained the examination process and informed the attendees at the meeting that review of the records would continue through Thursday or Friday of that week.

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

During the interview, when asked about the internal controls of the organization and if organization uses one or more checking accounts, explained that he tried to open an account with (Bank) and could not do it in the name of the organization. He explained that the bank account used for the organization's income and expenditures was under his personal name and social security number of . Agent asked for the records requested on the IDR and it was explained that the organization prepared their Form 990 based on amounts for calendar year ending December 31, 20XX instead of fiscal year ending May 31, 20XX, excluding advertising and promotion amounts. Agent explained that the documents used to prepare the Form 990 were needed for reconciliation purposes and to verify expenses. The records were to be provided at 11:00am the next day. On the following day, the Agent discussed the loan with the POA and asked for documentation. At approximately 10:00am, asked the agent to leave the audit site and requested the return of the documents previously provided. Documents were returned to him before the departure.

Substantiation of Expenses

The Form 990 filed for tax year ended May 31, 20XX, Part III, Page 2, line 4a, reported expense of \$0 and its revenue of \$0 with the following statement "Conducted real estate development course with printed materials and online instruction and mentoring to educate and assist enrollees in careers and business .

The agent's initial IDR requested copies of invoices for certain expenses reported on the Form 990: Other fees for services \$0; Advertising and Promotion \$0; and Travel \$0. After the field audit, the taxpayer mailed the records to the IRS office. The documentation consisted of copies of partial credit card statements and partial bank statements. The items showed that the payments were made from a checking account which was determined to be in the names and social security numbers of and . Other payments were made using an credit card and a Bank business card that were in name. No proof of payments submitted showed that made any payments. The information provided did not substantiate the reason for the payments.

While claimed that it provided records to include articles of incorporation, copies of Form 1099s, minutes (one page), additional documentation was needed to verify items reported on Form 990 or to determine that the organization activities were consistent with section 501(c)(3) of the Code and to determine if the organization complied with its employment tax filing requirements. Thus, various summonses were issued to Bank for records. After reviewing one of the bank accounts received from Bank, a letter dated October 13, 20XX with an attached IDR was mailed to the organization requesting bank statements, deposit details and cancelled checks for tax years ended May 31, 20XX and May 31, 20XX for , and d/b/a did not submit any records in response to the IDR.

Income

One bank account was identified under the employer identification number (EIN) for the organization. The account was opened on January 20XX. There were no other bank accounts identified as belonging to the organization. Total income of \$0 was reported in the account for tax year ended May 31, 20XX. The source of the income was transfers from an account titled d/b/a which was under social security number. One other transaction came from another personal account. The transfers were described as either "Online Transfers from Chk...0..." or "Transfer from Chk...0". For tax year ended May 31, 20XX, total income of \$0 was

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

deposited into _____, Inc's bank account with all transactions being described as online transfers from checking... 0.

Disbursements

The account showed total disbursements of \$0 and \$0 for tax years ended May 31, 20XX and May 31, 20XX, respectively. Per review of the bank account, the disbursements were grouped as follows:

CHART DELETED

Loan

The balance sheet for the tax year ended May 31, 20XX reported \$0 on page 11, Part X, as loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. All the net income of \$0 for tax year ended May 31, 20XX was used to reduce a loan to _____, resulting in total liabilities and net assets /fund balance of zero.

From a historical perspective, the 20XX Form 990 for tax year ended May 31, 20XX listed a loan of \$0 on schedule L. It also indicted that the loan was not approved by board or committee and that there was no written agreement. The return was prepared by a firm in _____. The return for tax year ended May 31, 20XX, prepared by _____ in _____, reported the loan on Schedule L and stated that it was not approved by the board and that there was no written agreement. The return filed for tax year ended May 31, 20XX reported that the loan was approved by the board and that there was a written agreement. The name of the preparer was not legible on the return. _____ did not provide an agreement relative to the loan.

The bank account information and cancelled checks obtained via the summons did not provide sufficient information to determine the purpose of the disbursements in order to determine if the expenses were consistent with section 501(c)(3) of Code. Most of the transactions provide only electronic information about the check and copies of the checks were not available. Thus, a letter dated March 13, 20XX was mailed to _____ explaining that as of date we had not received directly from _____ the various documents requested in the IDRs which include check register, journal entries, general ledger, cancelled checks, wire transfer information, contracts, invoices, or sales receipts. The letter explained that the documents were requested to verify the financial information reported on the Form 990 and to establish that activities, income, and disbursements transactions made by _____ were in compliance with section 501(c)(3) of the Code. The letter also explained why the bank records were insufficient for purpose of the examination. Copies of the IDRs previously mailed were attached to the letter. The letter also stated that since _____ has indicated that all the information requested were provided, then our conclusion will be that no additional documentation was available for our review. _____ was also notified in that same letter that if no additional records were available, then we would initiate procedures to revoke _____ exempt status, as well as possible employment tax and excise tax for unsubstantiated transactions.

In response to our letter, _____ requested additional time to gather the additional records which was granted. In response to the letter, _____ submitted a written statement from its former power of attorney;

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

the 20XX Annual Report filed with the Commonwealth of _____; testimonials from various individuals; copy of the Form 990-EZ filed for May 31, 20XX; and a statement from _____

_____ response include a statement that the transfers to the _____ and then to his personal account were compensation royalties to him and that all was recorded accurately. In addition, he provided the following statement "To help students across the United States and the World help themselves, I have given my time and knowledge, to mentor students. I am entitled to Royalties for my materials and efforts." No documentation or information such as copy of contract, or the terms of the arrangement were provided.

_____ confirmed that tuition revenue goes into _____ personal merchant account which was then used to pay expenses. Copies of the bank records obtained from _____ Bank via the summons were provided to him and in response he provided the following statement "I looked at your exhibits and saw that there is nothing unusual about using the personal account to pay 0% of _____ expenses as well as personal checks for the household, gifts to my children, business expenses for etc. Not one of the 0-0 cancelled checks (your exhibits) show anything unlawful or irregular." "At the end of each tax cycle, only business expenses are identified and used in tax filings for _____ and _____ personal checking account. And my wife and me pay very high taxes."

_____ stated the following in a letter dated October 24, 20XX "as of May 31, 20XX, we filed the 990 indicating the non-profit was inactive. I filed personal taxes on my course." "I am a sole proprietor and opened my account around 20XX under _____ DBA _____ and all funds flow through my personal merchant credit card vendor services offered by _____. In 20XX, I filed my personal taxes under my proprietorship."

LAW:

Section 501(c)(3) of the Internal Revenue Code (IRC) exempts from federal income tax organizations that are both organized and operated exclusively for one or more of the exempt purposes specified in section 501(c)(3). An organization that fails to meet either the organizational or the operational test is not exempt. Treas. Reg. § 1.501(c)(3)-1.

For IRC § 501(c)(3), exempt purposes include religious, charitable, scientific, testing for public safety, literary, educational, and prevention of cruelty to children or animals. Treas. Reg. § 1.501(c)(3)-1(d)(1).

Operational test -- An organization meets the operational test only if it engages primarily in activities which accomplish one or more of the exempt purposes specified in IRC § 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not furtherance of an exempt purpose. Treas. Reg. § 1.501(c)(3)-1(c)(1).

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. Treas. Reg. § 1.501(c)(3)-1(c)(2).

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

An organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than private interest. To meet this requirement, an organization must establish "that it is not organized or operated for the benefit of private interest such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests".

Rev. Rul. 67-5, 1967-1 C.B. 123, describes a _____ controlled by an insider and operated to enable the insider and his family to engage in financial activities beneficial to them and detrimental to the _____. The ruling holds that the _____ was operated for a substantial nonexempt purpose and served the private interest of the insider and his family and thus not entitled to exemption under section 501(c)(3) of the Code.

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

Section 6033(a)(1) of the Code provides, except as provided in 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 as the Secretary may by forms or regulations prescribe, and 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.

Section 1.6001-1(a) of the regulations in conjunction with section 1.6001-1(c) provides that every organization exempt from tax under section 501(a) of the Code and subject to the tax imposed by section 511 on its unrelated business income must keep such permanent books or accounts or records, including inventories, as are sufficient to establish the amount of gross income, deduction, credits, or other matters required to be shown by such person in any return of such tax. Such organization shall also keep such books and records as are required to substantiate the information required by section 6033.

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

Section 1.6033-2(i)(2) of the regulations provides that every organization which is exempt from tax, whether or not it is required to file an annual information return, shall submit such additional information as may be required by the Internal Revenue Service for the purpose of inquiring into its exempt status and administering the provisions of subchapter F (section 501 and following), chapter 1 of subtitle A of the Code, section 6033, and chapter 42 of subtitle D of the Code. See section 6001 and §1.6001-1 with respect to the authority of the district directors or directors of service centers to require such additional information and with respect to the books of accounts or records to be kept by such organizations.

Revenue Ruling 59-95, 1959-1 CB 627, concerns an exempt that was requested to produce a financial statement and a statement of its operations for a certain year. However, its records were so incomplete that it was unable to furnish such statements. The Service held that the failure or inability to file the required information return or otherwise to comply with the provision of section 6033 of the Code and the regulations

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

which implement it, may result in the termination of the exempt status of an organization previously held exempt, on the grounds that the organization has not established that it is observing the conditions required for the continuation of an exempt status.

In accordance with the above cited provisions of the Code and regulations under sections 6001 and 6003, organizations recognized as exempt from federal income tax must meet certain reporting requirements. These requirements relate to the filing of a complete and accurate annual information (and other required federal tax forms) and the retention of records sufficient to determine whether such entity is operated for the purposes for which it was granted tax-exempt status and to determine its liability for any unrelated business income tax.

TAXPAYER'S POSITION:

Per letter from _____ dated April 6, 20XX, the following statements were provided regarding submission of records. "At the meeting, on January 23, 20XX, step-by-step _____, CPA and myself provided every item she had requested."

"Regarding the initial loan, it was initially incurred over a period of time from 19XX to 20XX. (Approved by the IRS) and then came up again in 20XX (Approved again by the IRS)." Additional loans were provided for advertising, website, printing course materials, etc. He also submitted the following statement "On our tax filing, the loan and payback was questioned by the IRS and then discussed in great length with our CPA, _____, and then the IRS approved and allowed the loan payback in full of \$0 as shown in the 20XX Form 990."

With regards to the question compliance with employment tax filings, he indicated that it was his understanding that since the IRS was auditing the May 15, 20XX return that IRS already had the information. Explained that in 0 years he had never received a salary and therefore was not subject to employment tax filings and that no employment tax on his royalty income was ever due. The \$0 received was for royalty compensation (income) after expenses and after the \$0 loan to the non-profit was repaid.

"I looked at your exhibits and saw that there is nothing unusual about using the personal account to pay 0% of _____ expenses as well as personal checks for the household, gifts to my children, business expenses for _____ etc. Not one of the 0-0 cancelled checks (your exhibits) show anything unlawful or irregular." "At the end of each tax cycle, only business expenses are identified and used in tax filings for _____ and _____ and _____ personal checking account. And my wife and me pay very high taxes."

GOVERNMENT'S POSITION:

Organizations described in IRC 501(c)(3) and exempt under section 501(a) must be both organized and operated exclusively for exempt purposes. The limited documentation reviewed revealed transactions that appear to be inconsistent with Section 501(c)(3) of the Code. It also revealed transactions that appear to be inurement to the founder and family members. _____ have failed to produce documents to establish that it is operated exclusively for exempt purposes and that no part of its net earnings inures to the benefit of private shareholders or individuals. _____ failed to respond to repeated reasonable requests to allow the Internal Revenue Service to examine its records regarding receipts, expenditures, or activities as required by sections 6001 and 6033(a)(1) of the Code and Rev. Rul. 59-95, 1959-1 C.B. 627. Thus, _____ exempt status should be revoked effective June 1, 20XX.

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

Income

did not have a bank account until January 20XX. Even after a bank account was opened under name and employer identification number, did not change its operations to have tuition revenue directly deposited into account but continue to have tuition revenue deposited into personal account. Prior and subsequent to the opening of bank account, tuition revenue received for the courses via various merchants but primarily from were directly deposited in the personal account of its founder in an account titled d/b/a. The account was listed under social security number. Starting in January 20XX when the bank account was opened for the organization, funds were transferred from personal account to account. Funds were then transferred from account to another one of personal accounts.

did not provide original book of entry for revenue generated by the organization and reported on its Form 990. It failed to provide books and records similar to general ledger, bank statements showing deposits, check register showing deposits, or trial balance which were requested in the IDR submitted.

In the letter dated April 6, 20XX, claimed that the sources of revenue in the Forms 1099 from bank have always been for tuition revenue. He further stated that "We have record of every student who paid tuition from 20XX to the present since we've offered this Online Mentoring Course. We keep the most detailed records right down to the penny." However, even though has admitted that he currently has in his possession source documents associated with revenue, no detail records of student payments information were provided. This would have been one of the source documents to support the revenue reported on the Form 990.

letter dated April 6, 20XX also state the following "The source of the income is solely from tuition from students (paid by credit card) for the Real Estate Development Mentoring Course." "In terms of Source, we have detailed records of credit card payments from every single student as mentioned." Even though, claimed it currently has detailed records of credit card payments, no such records were provided to the IRS to support revenue reported on Form 990.

Disbursements

failed to provide records similar to check register, bank statements, cancelled checks, journal entries or general ledger requested in the IDRs. The documentation for certain expense items requested by the agent subsequently came in the mail. The documents submitted were to provide support and to reconciled the following expense items - Other fees for services \$0; Advertising and promotion \$0; and Travel \$0. The document submitted showed that these expenses were paid from either the personal bank account or their personal credit card. Most of the copies submitted were not legible and it was difficult to identify the amounts that reconciled to the items requested by agent.

Advertising/Promotion \$0

Some of the documentation provided were partial credit card statements which showed charges for items such as GOOGLE, Facebook, and Lynda web. The statements were the personal credit cards. The items were identified on the statements with a dot. However, not all the pages submitted were legible. Thus, agent was unable to reconcile the source document provided to the total. did not reconciled the documents submitted to the amount reported on its Form 990. They were only able to account for \$0. The difference of \$0 was not explained. Based on the documentation provided, the paid

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

certain expenses with their personal credit card and those expenses were reported on the Form 990 but the checking account information used to pay the credit card bill was not provided. No documentation was provided to show a direct connection between the expense charge to the card and the funds that were used to pay the bill for the charge card that would confirmed that the expense was correctly reported on the Form 990. The document trail provided was inadequate since we were unable to determine if actually paid the expenses. Thus, we were unable to validate that the expense reported on the Form 990 was correct.

Other Fee for Services - \$0

The total of \$0 appears to have been treated as compensation to for which a Form 1099 was issued. The details of the amount showed a heading of "Freelance" but no documentation with any meaningful explanation as to the purpose for the payment. The largest portion of the \$0 was an amount listed on summary as check #0 for \$0. No description for the amount was indicated on the summary. Most of the documents are illegible and it is unclear if any of the documents submitted were to show support for the \$0. No documentation was identified to show the bank account information that made the payment. On the pages that were legible, agent was unable to identify the payment details that reconciled with the \$0. did not show who the check was made payable to and for what purpose. It provided no explanation or justification on why this was an expense consistent with exempt purpose under section 501(c)(3) of the Code. If the payment was for compensation for services provided by their daughter, it provided no documentation to show precisely what services were provided.

According to the summary, the \$0 also included check# 0 for \$0, check# 0 for \$0, and check# 0 for \$0, all of which were described as "for cash". Due to the documentation being illegible, agent was only able to identify the source document for check# 0 for \$0. The support for this item consisted of the following:

DELETED

Information obtained via the summons show that the account number on the partial statement relates to one of the personal accounts. The second document appears to be a piece of a check register. Check# 0 was not paid from the account in which tuition revenue was directly deposited. The analysis of the various bank accounts showed that deposits to the account from which the check was paid came from transfers from the tuition revenue account, transfers from an unknown money market account and monthly social security retirement payments. There were no invoices or similar document to show what services were provided relative to the payment. In addition, the funds transferred to the personal account from which the check was paid were supposedly compensation of royalties to him. If that was the case, amounts paid out of his royalties should not be reported on the Form 990 without a clear connection that it is the expense of the exempt organization. has not shown that this expenditure founder does not constitute inurement of funds to her. It provides no substantiation that shows that the expense was consistent with exempt purpose.

According to the summary, the \$0 also includes check # 0 for \$0 and check # 0 for \$0. The source document was a partial statement with the description "Dept of Payment". (see below). did not

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

provide information to clearly show which bank account was used to make these payments. Thus, no connection can be established between these payments and the purpose for it being on the Form 990. On the summary page, described the payment as student loans. A GOOGLE search of showed that a described itself as a "

No information or explanation was provided to validate that this expense was paid by the organization and therefore should be reported on the Form 990. In addition, did not provide any documentation with a meaningful explanation to demonstrate that these expenditures do not constitute inurement. has not shown that these expenditures were consistent with section 501(c)(3) of the Code.

DELETED

provided no clear paper trail to validate that the expense of \$0 was correctly reported on the Form 990. Although a Form 1099 may have been issued, it does not relieve of its responsibility to make sure that the expenses are consistent with the 501(c)(3) purpose of the organization and that any expenses reported on the Form 990 represents amount paid by the organization.

Travel - \$0:

The summary listed gas for \$0 and car repair \$0. Due to the documents being illegible, agent was unable to identify the details of the transactions that reconciled to that amount. If these were charges on a credit card, the documentation did not include the bank account information to show the account that paid the credit card bill. Thus, no clear paper trail has been provided to validate that this expense was correctly reported on the Form 990 as an expense incurred by . The balance sheet of the Form 990 showed no assets. No lease agreements were provided, which suggest that does not own or was leasing a car. Below is the only item that was located on which the word "auto" was written. While the name was barely visible, the amount was illegible. No information was provided to rule out the possibility that the repair relates to one of the personal vehicles for their personal benefit. No information was provided relative to the ownership of the car and why this was an expense that was consistent with exempt purpose.

DELETED

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

In addition to the fact that tuition revenue was being used to pay personal expenses, any expenses paid out of the _____ personal account and reported on the Form 990 was left to the memory of _____ and family to try and identify what payments were related to _____ exempt purpose at the end of the tax year. As indicated _____, "there is nothing unusual about using the personal account to pay 0% of expenses as well as personal checks for the household, gifts to my children, business expenses for etc. Not one of the 0-0 cancelled checks (your exhibits) show anything unlawful or irregular." "At the end of each tax cycle, only business expenses are identified and used in tax filings for _____ and _____ and _____ personal checking account. And my wife and me pay very high taxes." Since the financial transaction for the exempt organization go thru the taxpayer's personal accounts, which also includes personal transactions, it makes it extremely difficult to identify the financial activities for the exempt organization under exam.

Review of Bank Records from Summons

The bank statements and any cancelled checks reviewed were obtained via summons to _____ Bank. The bank account in which the tuition revenue was deposited showed transactions such as disbursements to _____, payments to _____ Bank, _____, and transfers to _____ bank account. For tax year ended May 31, 20XX, while \$0 was deposited in the bank account, \$0 was transferred to _____ bank account and checks totaling \$0 were written to _____. Payments totaling \$0 to _____ were disbursed, \$0 to _____, as well as payments to _____. (see Attachment D for summary of bank account analysis).

Payments to _____: While the expense documentation discussed above showed some charges for advertising being charged to certain credit cards, agent cannot confirm that the payments using tuition revenue account was attributed solely to activities relating to _____ exempt purpose since no comprehensive set of financial records were provided. _____ Bank did not provide information to show the purpose of the payment and _____ has not provided records to allow for the payments to be associated with its source documents. Since the credit cards were personal credit cards, _____ must be able to reconcile the payments to the source documents to show that only expenses attributed to _____ exempt purpose were being paid for. _____ has not been able to do this and even with the sample expense items, if failed to adequately reconcile the sample line items. _____ has failed to show fully that all expenses paid for on a personal credit card were consistent with Section 501(c)(3) of the Code. _____ has not demonstrated all expenses paid with tuition revenue for the credit card do not represent inurement.

_____ / _____ Power & Light () Payments: The account also showed payments to _____ and _____ is a cable service provider and _____ is a power company. The Form 990 reported expense for occupancy of \$0, and \$0 for tax years ended May 31, 20XX and May 31, 20XX, respectively. Without records, there is no way for agent to determine the composition of these amounts and if it relates to _____ and _____. Without the records, agent is unable to determine if _____ paid the full bill for a residence in which the lives or if the expense is being allocated between the _____ personal use and _____ business purpose.

_____ did not submit any rental arrangements or suggested that it had its own separate facility or was renting from the _____ or was being shared with the _____. It appears that _____ is operated out of the personal residence of the _____. _____ County Appraiser records showed that the address on the return is in a condominium building in which one of the units is owned by _____. There was no indication that the unit was being used exclusively by _____.

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

Since this appears to be the personal residence of the [redacted] did not provide information to show that the cable or electric service being paid for was not been used by the [redacted] for their personal benefit in their home. It provided no documentation to show that the expense was attributed solely to [redacted] operations. Absence any information to the contrary, we conclude that the organization's funds were used to provide cable and electric service from which the [redacted] were privately benefitting.

Payments for health care vendors were also made from [redacted] bank account. The Form 990 filed for tax year ended May 31, 20XX reported insurance of \$0. Without the records, agent is unable to determine if it were the payments to the health care providers that was reported on the return as insurance. No information was provided as to the specific purpose for the payment to determine if it was related to exempt purpose.

Checks written to/or transfers to [redacted]: Checks totaling \$0 were written to [redacted] for tax year ended May 31, 20XX. [redacted] claimed that the disbursements represents royalties. Prior to April 20XX, the checks were paid to [redacted]. For 20XX, [redacted] received a Form 1099 for \$0. The Form 1099 listed the payments as non-employee compensation. It did not list the payment in the box designated for royalty. In April 20XX, [redacted] created a limited liability company called [redacted]. Both he and his wife were listed as managers. A portion of the funds transferred from his personal account to [redacted] account was transferred into another different personal account.

For the tax year ended May 31, 20XX, funds deposited directly into his personal account for tuition were transferred to [redacted] bank account from which a large portion (\$0) was transferred into one of his personal accounts, [redacted], LLC having account number [redacted]. Through this supposedly royalty arrangement, the bulk of the revenue received was paid over to [redacted] as royalty payment. For tax year ended May 31, XX approximately 67% percent [\$0/\$0] of revenue received was paid over to [redacted] as royalty. For the year ended May 31, 20XX, approximately 0% [\$0/\$0] of the tuition revenue received was paid over to [redacted] as royalty.

No information was provided relative to the nature of the royalty. No agreement was provided or detail information provided relative to the details of the royalty agreement that was in place. In the Form 1023 application, [redacted] had disclosed that he had assigned income or assets consisting of 0 seminar manuals to [redacted]. It is unknown if the royalty transfers relate to this assignment. The application also stated that [redacted] had authored a book which was not copyrighted but had contributed any rights to the copyright to [redacted]. It is not known if the supposedly royalty payment is attached to this same authored book. Except for [redacted] verbal claim that the amount represents royalty, no documentation was provided to substantiate the nature or purpose of the payments. [redacted] has not demonstrated that the payments to its founder and family do not represent inurement to them.

Loan
The Form 990 for tax year ended May 31, 20XX showed a loan at the beginning of the year in the amount of \$0, which showed a balance of zero at the end of the year. The earlier filed Forms 990s stated that the loan was not approved by the board and neither was there a loan agreement. [redacted] claimed that the loan was on the books since the 19XXs. He claimed that the funds were provided for advertising, overhead, and operations. [redacted] claimed that the loan required IRS approval and that the CPA brought this matter to the IRS explaining the circumstances and provided all worksheets, business documents and explained in detail the event of the loan. He stated that he did not have the documents

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

because they were turned over to the CPA the IRS. He claimed that the IRS "closely reviewed the matter and approved the cumulative loan transaction and initial loan amount. He claimed that the IRS approved and allowed the loan payback of \$0.

In a letter dated January 30, 20XX, [redacted] claimed that "The [redacted] has operated impeccably for 0 years and has never been audited." [redacted] did not provide any documentation to show who, how, and when the matter was dealt with by the IRS. Nevertheless, [redacted] failed to provide a loan agreement detailing the terms of the loan arrangement.

The May 31, 20XX Form 990 showed that all remaining income was transferred to [redacted] and [redacted] balance sheet showed zero for assets, liabilities and fund balance. [redacted] letter dated October 24, 20XX stated that "as of May 31, 20XX, we filed the 990 indicating the non-profit was inactive. I filed personal taxes on my course." "I am a sole proprietor and opened my account around 20XX under DBA [redacted] and all funds flow through my personal merchant credit card vendor services offered by [redacted]. In 20XX, I filed my personal taxes under my proprietorship.

Based on the analysis above, it is the Service's position that [redacted] has failed to meet the reporting requirements of section 6033 of the Code since it failed to provide records to show that certain payments made from tuition funds were consistent [redacted] exempt purpose. It also failed to provide records to show that certain expenditures reported on the Form 990 were paid for by [redacted] has failed to provide adequate documentation to show that certain expenditures made from tuition income does not constitute inurement to the founder and family members. [redacted] has failed to keep adequate records as required under IRC 6001 and did not respond to our repeated requests to secure information necessary to verify expenses and to determine if activities conducted were exempt. Thus, the conclusion reached is that exempt status under 501(c)(3) of the Code should be revoked.

CONCLUSION:

[redacted] failed to meet the reporting requirements under Internal Revenue Code sections 6001 and 6033 by not providing documentation to substantiate that its activities are consistent with 501(c)(3) of the Code. It has failed to provide documentation to validate that expenses reported on the Form 990 were accurately reported. It has also failed to provide documentation to show that certain transactions which has an appearance of inurement do not constitute inurement. Accordingly, the organization's exempt status is revoked effective June 1, 20XX.