



Department of the Treasury
Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Release Number: **201918019**
Release Date: 5/3/2019
UIL Code: 501.00-00, 501.35-00, 501.36-00

Date:
February 5, 2019
Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

Dear _____ :

This letter is our final determination that you don't qualify for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (the Code). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

Because you don't qualify as a tax-exempt organization under Section 501(c)(3) of the Code, donors can't deduct contributions to you under Section 170 of the Code. You must file federal income tax returns for the tax years listed at the top of this letter using the required form (also listed at the top of this letter) within 30 days of this letter unless you request an extension of time to file.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection (as required under Section 6110 of the Code) after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Notice 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

We'll also notify the appropriate state officials of our determination by sending them a copy of this final letter and the proposed determination letter (under Section 6104(c) of the Code). You should contact your state officials if you have questions about how this determination will affect your state responsibilities and requirements.

If you have questions about this letter, you can contact the person listed at the top of this letter. If you have questions about your federal income tax status and responsibilities, call our customer service number at 1-800-829-1040 (TTY 1-800-829-4933 for deaf or hard of hearing) or customer service for businesses at 1-800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:

Notice 437

Redacted Letter 4036, *Proposed Adverse Determination Under IRC Section 501(c)(3)*

Redacted Letter 4038, *Final Adverse Determination Under IRC Section 501(c)(3) - No Protest*



Department of the Treasury
Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Date:
November 19, 2018
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

R = State
S = Date
T = Term
V = Term
W = Term
X = Organization
y = Number

UIL:

501.00-00
501.35-00
501.36-00

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Section 501(a) of the Internal Revenue Code (the Code). Based on the information provided, we determined that you don't qualify for exemption under Section 501(c)(3) of the Code. This letter explains the basis for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under Section 501(c)(3) of the Code? No, for the reasons stated below.

Facts

You incorporated in the state of R on S. According to your Articles of Incorporation, you are organized exclusively for charitable, religious, educational, and scientific purposes as specified in Section 501(c)(3) of the Code. Upon dissolution, your Board of Directors shall, after paying or making provision for the payment of all of the liabilities of the Corporation, distribute all the assets of the Corporation to one or more organizations then qualified under Section 501(c)(3).

According to your application, you hope to advance the availability and quality of healthcare through research, education and increased transparency that facilitates leadership development, quality outcomes, and informed investment decisions in the healthcare delivery system.

You assert that, despite rising healthcare costs and costs to finance Medicare, Medicaid and other public health programs, there is insufficient information that can be used to help consumers, policymakers, and healthcare providers understand the underlying cost drivers of healthcare to determine how best to reduce such costs.

Your stated mission is to promote and conduct independent research and analyses on the causes of rising health spending and to provide stakeholders with better, more transparent information on what is driving health care costs, with the goal of discovering ways to reduce them. Ultimately, you would like the results to be used to help consumers, health care providers, states and the federal government control spending while improving health care access, efficiency and outcomes.

You hope to study various characteristics of health care costs, such as medical costs, insurance coverage, reimbursement models, and consumer health care expenses and distribute this information to improve overall health care. The study you want to design would use the results of your research, along with existing data sets, to study and help others study the health care system, evaluate existing and new ways to contain costs, and assess quality.

Your initial research will focus on the healthcare claims process – the costs associated with the process and how improvements can impact access to healthcare. Research will be primarily conducted, under supervision of a lead researcher, by your research assistants who will use multiple inputs such as: data sets provided by The Centers for Medicare and Medicaid and data sets available from commercial insurers; interviews with providers and payers to identify areas of deficiency; and online polling to providers and consumers.

The research assistants will conduct literature and data reviews and then design the research study, collecting and analyzing the various modes of data. They will prepare the interview questions, identify and interview subjects, and maintain records of interviews. They will provide this information to their lead researcher and/or supervisor. Results of the research will be summarized and published electronically on your website, as well as sent to a subscription user base via email.

You will be operated primarily by volunteers except for the researchers who will be paid as independent contractors and eventually as employees. You hope to obtain funding through grants and donations. Any monies raised will be used to pay the researchers and to educate policy makers, consumers and providers about the results of your research.

You provided your website address. Your website states that you are a non-profit organization that hopes to advance the availability and quality of healthcare for Americans through research, education, and increased transparency. It also states you are focused on connecting payers with providers, thereby reducing healthcare expenses. Your website also includes information about you that substantially departs from the information you provided in your application. The website states that you will provide a blockchain platform that enables all stakeholders to share information in a secure environment.

Your website provides a direct link to another website, which has the same web address as yours with a different domain suffix. This second website provides more information about blockchain technology. The second website states that the problem is that traditional, centralized systems are slow, redundant, and expensive. Providers and payers must each employ their own staff and maintain separate software stacks to facilitate their medical claims processes. These isolated systems make the sharing of basic information not only difficult and costly, but prone to errors and fraud.

The second website describes a T platform which is advantageous over the current information systems because it uses smart contracts and blockchain technology designed to service the healthcare industry. Specifically, the

blockchain provides four advantages: no central agent is required to approve transactions; transactions can't be altered or deleted once added to the chain via consensus; all nodes contain a copy of the blockchain data, removing a central point of failure; and transactions in the blockchain are visible to all parties with appropriate access to decrypt and review.

The website also explains why you are a non-profit organization. You feel strongly the only effective way to solve the challenges in administrative expenses within the healthcare industry is to have an organization with characteristics that match the blockchain as best possible. For this reason, the best current business entity for this is a non-profit. Having a non-profit business structure allows for transparency and stakeholder feedback through a board of directors comprised of healthcare payers, providers, and financial institutions. This will provide the strong governance model required for the continuing development and maintenance of a blockchain that also allows industry stakeholders a chance to collaborate and drive down expenses while meeting their common needs.

Information posted on the second website states that there is an S-Corp incorporated in R and fully held by you. The corporation is governed by you, as a non-profit entity, to ensure strong governance. Financials will all roll up to you, and you are bound by strict financial reporting requirements providing a high level of financial transparency.

The second website contains a whitepaper that states the T business model, combined with blockchain technology, will increase the efficiency and effectiveness of the healthcare industry as a whole. Your vision is to reduce costs of authorization and settlement services while providing insurers current data for actuarial models and increasing the use of Healthcare Savings Accounts managed by banks.

The whitepaper describes you as the business entity which creates, maintain, and provides updates to the public T blockchain. It explains that you are a non-profit entity whose core objective is the establishment of the T platform to reduce the cost of healthcare and make it more affordable to patients. It further explains that your board contains stakeholders from the banking, payer, and provider space to drive adoption of the T platform while conforming to the industries' specific needs. It further states that the software is free to use. The only expense to an organization wishing to utilize the platform is the initial purchase of digital assets. When the platform is launched, a relatively insignificant expense would be incurred for a stakeholder. As the platform is more fully utilized the shares must be purchased at market value and should thus increase in value as demand for the shares increases. The shares themselves behave as an asset of the business.

The whitepaper describes the process of obtaining healthcare services and the number of steps involved in claims processing. The multiple steps and involvement of each individual stakeholders' internal processes results in a costly system, the expenses of which are passed on to subscribers of the healthcare plan. You assert that no intermediary has been able to provide a solution to address the expenses of the claims submission process, because the need for trust and control is too great for a traditional business model to meet. T addresses this by providing a blockchain platform, governed by a non-profit business entity responsible for developing and maintaining the platform.

This platform is freely available to all parties and uses a V concept. V allows for a blockchain participant to 'prove' they are a member of the decentralized blockchain by possessing tokens (or coins) that represent their 'stake' in the blockchain. This V provides for voting rights, smart contract creation/alteration, authorization of funding methods, and generation of 'gas' to process transactions on the chain. Basing the technology solution

on V allows T to then adapt a non-profit organizational business model to provide an equal level of transparency and governance that is provided by the technology platform.

The purpose of T as a business entity is to update the publicly available software used for the blockchain under the recommendations of the advisory board members who are representative of all three stakeholder types: payers, providers, and financial institutions. You are the business entity which creates, maintains, and provides updates to the public T blockchain. You are a non-profit entity whose core objective is the establishment of the T platform to reduce the costs of healthcare and make it more affordable to patients.

You provided additional information as part of the application process, in which you explained that all activities related to the blockchain are occurring in a fully held subsidiary S-Corporation formed in the state of R under the name X. You state that neither creating nor deploying blockchain technology is part of your mission or operating activities. You will, however, use any data produced by the platform for educational and research related work.

The website states that you will initially fund yourself and the development of the blockchain from the proceeds of an initial crowd sale or initial coin offering (“ICO”). The website also indicates that a full crowd sale for you is open. X’s revenue comes from the appreciating value of the shares. Possession of W allows for the T end user to ‘vote’ on proposed software changes. In this manner, the shares act as a proxy for stock in the organization. Ancillary revenue streams are possible through patient opt-in of record sharing with drug manufacturers and medical device manufacturers.

You said that the confusion between your website and the second website should be resolved when X moves from the second website to a third one that has yet to be created. The second website will forward users to the third website. You also state that you have corrected the language which indicated that you will fund yourself from an ICO; X will fund itself this way.

You assert your role to X is to provide oversight with a higher level of financial transparency than is required from privately held firms. You said that many entities operating in the blockchain space are either fraudulent, or at best, deceiving those who have participated in the creation of their platforms. You feel that the non-profit filing requirements are the most transparent way to reveal financial information available to you. Thus, you interact with X in the following ways:

- a) Your board of directors will also serve as the board of directors for X. This provides a method of public acknowledgement through annual 990 filings of any compensation to directors due to X.
- b) You will hold y million W. These will be held and distributed to participants and developers on the platform. Since you will be holding these instead of X, this will provide transparency to other participants in the blockchain.

You said that you have not generated any revenue to date. You expect that whitepapers on your research will be sold to interested parties and you will generate fees from speaking engagements and seminars. The subsidiary organization, X, has also not generated any revenue. Expectations are that adoption of a functional blockchain will create an economic ecosystem wherein holding digital assets will become a proxy for the value of the system. Alternate streams of revenue are also being explored.

Law

Section 501(c)(3) of the Code provides for exemption from federal income tax of organizations organized and operated exclusively for charitable, educational, scientific, and other purposes, provided that no part of the net earnings inures to the benefit of any private shareholder or individual.

Section 513(a) of the Code defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its exempt purpose or function.

Section 513(c) of the Code provides that the term "trade or business" includes any activity which is carried on for the production of income from the sale of goods or the performance of services. An activity does not lose its identity as a trade or business merely because it is carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which may or may not be related to the exempt purposes of the organization.

Treasury Regulation Section 1.501(c)(3)-1(a)(1) provides that, in order to be exempt as an organization described in Section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Treas. Reg. Section 1.501(c)(3)-1(c)(1) provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in Section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii) states that an organization is not operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. It must not be operated for the benefit of designated individuals or the persons who created it.

Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i) defines the term educational as the instruction or training of the individual for the purpose of improving or developing his capabilities or the instruction of the public on subjects useful to the individual and beneficial to the community.

Treas. Reg. Section 1.501(c)(3)-1(d)(5)(i) provides that an organization may meet the requirements of Section 501(c)(3) only if it serves a public rather than a private interest. A 'scientific' organization must be organized and operated in the public interest. The term 'scientific' therefore includes the carrying on of scientific research in the public interest.

Treas. Reg. Section 1.501(c)(3)-1(d)(5)(ii) further provides that scientific research does not include activities of a type ordinarily carried on as an incident to commercial or industrial operations, as, for example, the ordinary testing or inspection of materials or products or the designing or construction of equipment, buildings, etc.

Treas. Reg. Section 1.501(c)(3)-1(d)(5)(iii) provides, in part, that scientific research will be regarded as carried on in the public interest if the results of such research (including any patents, copyrights, processes, or formulae

resulting from such research) are made available to the public on a nondiscriminatory basis and such research is directed toward benefiting the public.

Treas. Reg. Section 1.501(c)(3)-1(e)(1) provides that an organization may meet the requirements of Section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in Section 513. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes. An organization which is organized and operated for the primary purpose of carrying on an unrelated trade or business is not exempt under Section 501(c)(3).

Revenue Ruling 54-305, 1954-2 C.B. 127, concerns an organization whose purposes are to secure for hospitals and other charitable institutions the advantages of cooperation in establishing uniform standards as to quality and kind of supplies and the purchasing of the same, and to promote the economical and efficient administration of hospitals and other institution and to establish and maintain a central purchasing agency. The ruling holds that operating and maintaining a purchasing agency for the benefit of otherwise unrelated members who are exempt from federal income tax as charitable organizations would be unrelated activities if carried on by any one of the tax-exempt organizations served. Therefore, the organization is not entitled to exemption under Section 101 (the precursor of Section 501(c)(3)).

Rev. Rul. 69-528, 1969-2 C.B. 127, found that "an organization regularly carrying on an investment service business that would be unrelated trade or business if carried on by any of the exempt organizations on whose behalf it operates, is not exempt under Section 501(a)." This organization was, "free from the control of the participants and [had] the absolute and uncontrolled discretion in (1) investment of the property, (2) sale of investments and reinvestment of the proceeds, (3) payment of taxes and liens, (4) distributions of income and principal or the addition of accumulated income to principal, and (5) dealing with the property and managing the funds as if it were absolute owner thereof."

Rev. Rul. 72-369, 1972-2 C.B. 245, concerns an organization formed to provide managerial and consulting services for nonprofit organizations exempt under Section 501(c)(3) of the Code to improve the administration of their charitable programs. The organization enters into agreements with unrelated nonprofit organizations to furnish managerial and consulting services on a cost basis. The ruling states that the provision of managerial and consulting services on a regular basis for a fee is a trade or business ordinarily carried on for profit. The fact that the services in this case are provided at cost and solely for exempt organizations is not sufficient to characterize this activity as charitable within the meaning of Section 501(c)(3). Furnishing the services at cost lacks the donative element necessary to establish this activity as charitable. Accordingly, the ruling holds that the organization's activities are not charitable and, therefore, the organization does not qualify for exemption under Section 501(c)(3).

Rev. Rul. 76-206, 1976-1 C.B. 154, considered an organization formed to promote broadcasting of classical music in a particular community. The organization carried on a variety of activities designed to stimulate public interest in the classical music programs of a for-profit radio station, and thereby enable the station to continue broadcasting such music. The activities included soliciting sponsors, soliciting subscriptions to the station's program guide, and distributing pamphlets and bumper stickers encouraging people to listen to the station. The organization's board of directors represented the community at large and did not include any representatives of

the for-profit radio station. The ruling concludes that the organization's activities enable the radio station to increase its total revenues and therefore benefit the for-profit radio station in more than an incidental way. Therefore, the organization is serving a private rather than a public interest and does not qualify for exemption.

In Better Business Bureau of Washington, D.C. Inc. v. United States, 326 U.S. 279 (1945), the Supreme Court determined that, while some activities of the organization were educational, a substantial purpose of the organization was to promote business, and thus the organization was not operating exclusively for educational purposes. It held that the presence of a single non-exempt purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly exempt purposes.

In Parker v. Commissioner, 365 F.2d 792, 799 (8th Cir. 1963), the Court of Appeals affirmed the findings of Tax Court that foundation was pursuing a substantially non-exempt purpose in the publication and commercial exploitation of the writings of the founder, director and prime functionary of foundation. The founder had control of the foundation's day to day activities, complete control of its finances and the founder's personal funds were to a degree commingled with the funds of the foundation, and that the evidence clearly supported the finding that the foundation was pursuing a substantial non-exempt purpose.

Application of law

You are not described under Section 501(c)(3) of the Code or Treas. Reg. Section 1.501(c)(3)-1(a)(1) because you do not meet the operational test. A substantial part of your activities does not further exempt purposes. You create, maintain, develop, promote, and provide governance and direction to the development of blockchain technology as a commercial enterprise. As stated in Treas. Reg. Section 1.501(c)(3)-1(c)(1), an organization is operated exclusively for one or more exempt purposes only if it primarily engages in activities which accomplish such exempt purposes.

Providing blockchain technology to payers, providers, and financial institutions for use in the conduct of their businesses is not educational within the meaning of Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i). To qualify as a scientific organization under Section 501(c)(3) of the Code, an organization must serve a public rather than a private interest as described in Treas. Reg. Section 1.501(c)(3)-1(d)(5)(i). Your activities are aimed at promoting a type of technology to benefit payers, providers, and financial institutions. Your activities are also not considered scientific research as described in Treas. Reg. Section 1.501(c)(3)-1(d)(5)(ii), because it excludes activities ordinarily carried on in a commercial manner. For the above reasons you do not meet the qualifications for conducting scientific research per the regulations.

Treas. Reg. Section 1.501(c)(3)-1(e) infers that an organization that is organized and operated for the primary purpose of carrying on an unrelated trade or business does not meet the requirements of Section 501(c)(3) of the Code, as illustrated in Rev. Rul. 54-305. Providing blockchain technology, engaging in the public offering of W to finance the technology, and providing a means to increase the value of W to holders is an activity which is carried on for the production of income from the sale of goods or the performance of services, as defined in Section 513(a) and 513(c) of the Code. You are engaged in such activities would be deemed organized and operated for the primary purpose of carrying on an unrelated trade or business, and, consequently, would fail to meet the requirements of Section 501(c)(3).

Your activities are like those described in Rev. Rul. 69-528. This ruling held that if a tax-exempt organization provides investment services for a fee to another unrelated tax-exempt organization, such activity would constitute an unrelated trade or business. Thus, it was reasoned that an organization formed for the sole purpose

of providing such services is not described in Section 501(c)(3) of the Code because it is organized and operated for the primary purpose of carrying on an unrelated trade or business.

You are like the organization described in Rev. Rul. 72-369 because your services are not inherently charitable. You do not qualify for exemption under Section 501(c)(3) of the Code because you operate in a manner similar to a trade or business ordinarily carried on for profit. Although you said you aren't conducting the blockchain activities, have provided no evidence that these are activities being carried out by any other entity other than yourself. Your website and all the links and whitepapers contained therein indistinguishably entangles your activities with the activities of X. Even if you were to provide documentation that these activities are being conducted through the wholly-held subsidiary, you are still providing governance and direction to the commercial operation, you are holding ownership of the enterprise through possession of y million shares of W, you are offering these W for sale to the public, and you intend to report the financial transactions through your 990 returns. In effect, these activities are attributable to you.

Like the organization in Rev. Rul. 76-206, because you are furthering the business interests of a for-profit enterprise, you are serving a private rather than a public interest. Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii) states an organization is not operated exclusively for exempt purposes unless it serves a public rather than a private interest. As in Parker, your activities of publishing a whitepaper and hosting a website that advertises and promotes the T blockchain technology, as well as offering W for sale, are commingled to such a degree with a for-profit subsidiary, that they are furthering a private, non-exempt purpose. Per Better Business Bureau of Washington, D.C. Inc., a substantial non-exempt purpose will destroy exemption regardless of the number or importance of truly exempt purposes.

Conclusion

Based on the above facts and analysis you do not qualify for exemption under Section 501(c)(3) of the Code because you are not operated exclusively for exempt purposes. The facts show you are engaging in non-exempt operations to a substantial degree and benefitting a private interest, a for-profit enterprise, rather than a public interest. Accordingly, we conclude you do not qualify for exemption under Section 501(c)(3).

If you don't agree

You have a right to file a protest if you don't agree with our proposed adverse determination. To do so, you must send a statement to us within 30 days of the date of this letter. The statement must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A copy of this letter highlighting the findings you disagree with
- An explanation of why you disagree, including any supporting documents
- The law or authority, if any, you are relying on
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization, or your authorized representative
- One of the following declarations:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I examined this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts and such facts are true, correct, and complete.

For authorized representatives:

Under penalties of perjury, I declare that I prepared this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, *Power of Attorney and Declaration of Representative*, with us if he or she hasn't already done so. You can find more information about representation in Publication 947, *Practice Before the IRS and Power of Attorney*.

We'll review your protest statement and decide if you provided a basis for us to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't provided a basis for reconsideration, we'll forward your case to the Office of Appeals and notify you. You can find more information about the role of the Appeals Office in Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court at a later date because the law requires that you use the IRS administrative process first (Section 7428(b)(2) of the Code).

Where to send your protest

Please send your protest statement, Form 2848, if needed, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Room 7-008
P.O. Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Room 7-008
Cincinnati, OH 45202

You can also fax your statement and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that he or she received it.

If you agree

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

You can find all forms and publications mentioned in this letter on our website at www.irs.gov/formspubs. If you have questions, you can contact the person listed at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosure:
Publication 892