



**Department of the Treasury  
Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

Number: 202019028  
Release Date: 5/8/2020

UIL Number: 501.03-00, 501.03-05

Date: February 12, 2020

Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

1120

Tax years: All

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: December 23, 2019

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

**Legend:**

T = Name  
U = Name  
V = Names  
X = Date  
Y = Date  
Z = State

**UIL:**

501.03-00  
501.03-05

Dear :

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

**Issues**

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

**Facts**

You submitted Form 1023-EZ, Streamline Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, on X.

You attest that you were incorporated on Y, in the state of Z. You attest that you have the necessary organizing document, that your organizing document limits your purposes to one or more exempt purposes within the meaning of the IRC Section 501(c)(3), that your organizing document does not expressly empower you to engage in activities, other than an insubstantial part, that are not in furtherance of one or more exempt purposes, and that your organizing document contains the dissolution provision required under Section 501(c)(3).

You attest that you are organized and operated exclusively to further charitable purposes. You attest that you have not conducted and will not conduct prohibited activities under IRC Section 501(c)(3). Specifically, you attest you will:

- Refrain from supporting or opposing candidates in political campaigns in any way
- Ensure that your net earnings do not inure in whole or in part to the benefit of private shareholders or individuals
- Not further non-exempt purposes (such as purposes that benefit private interests) more than insubstantially
- Not be organized or operated for the primary purpose of conducting a trade or business that is not related to your exempt purpose(s)
- Not devote more than an insubstantial part of your activities attempting to influence legislation or, if you made a Section 501(h) election, not normally make expenditures in excess of expenditure limitations outlined in Section 501(h)
- Not provide commercial-type insurance as a substantial part of your activities

Your mission or most significant activities on the Form 1023EZ indicated that you are the legal entity behind the cryptocurrency, T. Your team consists of all volunteers who work on the project to advance a system that allows for peer to peer transfer of value for goods and services.

Detailed information was subsequently requested. You are formed to advance T. T is open source and is a cryptocurrency which is defined as a digital asset designed to work as a medium of exchange that uses strong cryptography to secure financial transactions, control the creation of additional units, and verify the transfer of assets. Your software is free to download, inspect and edit. All your software and research are public and open source allowing anyone to take advantage of or contribute to your work. You work to build technology and software to support the T blockchain. In general, cryptocurrencies use blockchain technology to record transactions. Furthermore, a blockchain, provides anyone who wants access to observe and analyze the chain data, given one has the know-how.

Your activities specifically consist of:

- Maintaining the primary software which operates the T network;
- Hosting and maintaining websites relating to T;
- Conducting research and the development of new protocols for T;
- Working with exchanges and merchants to assist with T integration, security disclosures and attack mitigation;
- Maintaining U, a lightweight wallet that does not require a full download of the T blockchain;
- Hosting and maintaining services and maintaining software relating to U;
- Engaging the wider community via social media channels to educate on the technical operation of the software you maintain.
- Providing technical support to users on using the wallet software, configuring V and maintaining peer to peer nodes.

The only fee charged on the T blockchain is transaction fees that are paid out to the V that validate the transactions on the blockchain. For this, successful V obtain new cryptocurrency as a reward. The reward decreases costs by creating a complementary incentive to contribute to the processing power of the network. None of these fees are directed to the T team. You further stated that T uses a mining algorithm which can be

mined effectively using generalized hardware (graphics cards) which most individuals already have in their computers.

Currently all assets are held by individual team members. You pay their expenses for things such as domain names, server costs, software costs and more are reimbursed from your development fund that community members can donate to. In addition, you offer a developer tip jar on your website which is a fund that allows people to donate directly to the development team for their efforts. These funds are divided evenly among team members who have elected to receive tips from the community members.

Finally, you stated that all communications take place over the internet via your social networking sites.

## Law

IRC Section 501(c)(3) exempts from taxation any corporation organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, provided no part of the net earnings of which inures to the benefit of any private shareholder or individual.

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

Treas. Reg. Sec. 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 IRC Section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

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) provides that the term "educational" relates to: (a) The instruction or training of the individual for the purpose of improving or developing his capabilities; or (b) The instruction of the public on subjects useful to the individual and beneficial to the community.

Treas. Reg. Sec. 1.501(c)(3)-1(d)(3)(ii) (Example 2) provides that an educational organization includes an organization whose activities consist of presenting public discussion groups, forums, panels, lectures, or other similar programs. Such programs may be on radio or television.

Rev. Rul. 66-255, 1966-2 C.B. 210, describes an educational organization that qualified for providing public information. In this ruling, the organization educated the public as to a particular method of painless childbirth. The organization utilized meetings, films, forums, and publications to educate the public. The organization carried out its purpose through (a) public programs of films followed by discussions with doctors and members of the organization; (b) presentations on local radio stations; (c) meetings conducted by a doctor or a registered

nurse for expectant parents; and (d) pamphlets, manuals, and books which are distributed to libraries, hospitals, and obstetricians.

Rev Rul. 72-369, 1972-2 C.B. 245 held that an organization formed to provide managerial and consulting services at cost to unrelated exempt organizations does not qualify for exemption under IRC Section 501(c)(3). The ruling held that providing managerial and consulting services on a regular basis for a fee is trade or business ordinarily carried on for profit and 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 IRC Section 501(c)(3).

Rev. Rul. 77-365, 1977-2 C.B. 192, describes an educational organization that conducted clinics, workshops, lessons, and seminars at municipal parks and recreational areas to instruct and educate individuals in a particular sport.

### **Application of law**

You do not meet the operational test under IRC Section 501(c)(3) as described in Treas. Reg. Section 1.501(c)(3)-1(a)(1) because you fail the operational test. You are not described in Section 501(c)(3) as an educational organization for the development, promotion and distribution of open source web applications in regard to T. The term "educational", as used in Section 501(c)(3) relates to (a) the instruction or training of the individual for the purpose of improving or developing his capabilities; or (b) the instruction of the public on subjects useful to the individual and beneficial to the community. Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i). The regulations provide several examples of organizations that qualify as educational organizations, including "organizations whose activities consist of presenting public discussion groups, forums, panels, lectures, or other similar programs." See Treas. Reg. Sec. 1.501(c)(3)-1(d)(3)(ii), example (2). One such educational organization was described in Rev. Rul. 66-255, 1966-2 C. B. 210, which describes an organization formed to educate the public as to a particular method of painless childbirth. The organization carried out its purpose through (a) public programs of films followed by discussions with doctors and members of the organization; (b) presentations on local radio stations; (c) meetings conducted by a doctor or a registered nurse for expectant parents; and (d) pamphlets, manuals, and books which are distributed to libraries, hospitals, and obstetricians. Another example of a qualifying educational organization was described in Rev. Rul. 77-365, 1977-2 C.B. 192, in which the organization qualified for its activities of conducting clinics, workshops, lessons, and seminars at municipal parks and recreational areas to instruct and educate individuals in a particular sport.

You are not conducting any of the activities described above. You do not conduct any public discussion groups, forums, panels, lectures or similar programs. You merely provide open source web applications that can be used or modified by anyone and used for whatever purpose that individual sees fit. You do not conduct any educational activities that instruct or train individuals for the purpose of improving their capabilities. Your activities are best described as providing a product with product information and are analogous to a product manual, which does not rise to the level of educational as required under IRC Section 501(c)(3).

Furthermore, you do not meet the operational test under IRC Section 501(c)(3) because you are not operating exclusively for charitable purposes as required under Treas. Reg. Section 1.501(c)(3)-1(c)(1). You maintain, develop and distribute open source software relating to your cryptocurrency freely to the public. The provision of goods or services to the public must fulfill a recognized Section 501(c)(3) charitable purpose itself or be directed to benefiting a charitable class recognized under Section 501(c)(3). Merely providing open source web

applications to the public for free is not a charitable activity under Section 501(c)(3). Furthermore, as stated above, the Service has recognized charitable classes to include the poor, distressed and underprivileged, the aged, and the sick or handicapped. However, the public who may use your programs is not a recognized charitable class. Thus, you have not shown that you are operated exclusively for one or more exempt purposes.

An organization is not exempt merely because its operations are not conducted for the purpose of producing a profit. To satisfy the 'operational test' the organization's resources must be devoted to purposes that qualify as exclusively charitable within the meaning of IRC Section 501(c)(3) of the Code and the applicable regulations. Like the organization in Rev Rul. 72-369, 1972-2 C.B. 245, your activities are not conducted with the purpose of producing a profit, but they are not conducted to exclusively benefit a charitable class. Your software applications can be used by anyone with interest in T which establishes that your purpose is not to exclusively benefit a charitable class.

You are also not operated for the benefit of public rather than private interests as required in Treas. Reg. Sec. 1.501(c)(3)-1(d)(1)(ii). V are compensated with transaction fees from blocks they create, as well as newly mined coins generated with every new block. Developers receive fees from community members. This is private benefit to the V and developers and does not further a charitable purpose.

### **Conclusion**

Based on the information submitted, we conclude that you are not an organization described in IRC Section 501(c)(3) because you are not operated for charitable purposes or for educational purposes.

### **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.

### **If you don't agree**

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

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

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

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request

or the modification contains all relevant facts relating to the request, 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 they haven'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 gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information 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 later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

### **Where to send your protest**

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service  
EO Determinations Quality Assurance  
Mail Stop 6403  
P.O. Box 2508  
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service  
EO Determinations Quality Assurance  
550 Main Street, Mail Stop 6403  
Cincinnati, OH 45202

You can also fax your protest 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 they received it.

You can get the forms and publications mentioned in this letter by visiting our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676). If you have questions, you can contact the person listed at the top of this letter.

### **Contacting the Taxpayer Advocate Service**

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 if you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit [www.taxpayeradvocate.irs.gov](http://www.taxpayeradvocate.irs.gov) or call 877-777-4778.

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements