



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
PO Box 2508
Cincinnati, OH 45201

Number: **202125022**
Release Date: 6/25/2021

UIL Number: 501.03-30, 501.36-02

Date: March 30, 2021

Employer ID number:

Form you must file:

Tax years: All

Person to contact:

Name:

ID number:

Telephone:

Dear _____ :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3). 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 IRC Section 501(c)(3), donors generally can't deduct contributions to you under IRC Section 170.

We may notify the appropriate state officials of our determination, as required by IRC Section 6104(c), by sending them a copy of this final letter along with the proposed determination letter.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. 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.

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

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Notice 437
Redacted Letter 4034
Redacted Letter 4038



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

Date: January 5, 2021

Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

- B = State
- C = Date
- D = Locations
- E = Location
- F = Name

UIL:

- 501.03-30
- 501.36-02

- t dollars = Amount
- u dollars = Amount
- v dollars = Amount

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 were formed in B on C for the specific purposes of receiving and administering funds exclusively for education and charitable purposes without pecuniary gain or profit, incidental projects, undertakings, studies and other activities in cooperation with governmental and civic bodies; for aiding, assisting, and fostering the planning and development of recreational activities in any way associated with horses that is legal and safe; for upgrading the quality of horses; and for aiding in the education of youth as it relates to correct ways to ride and care for horses.

Your purposes listed in your bylaws include promoting and creating interest in equine and agricultural activities in D and E including but not limited to barrel racing, rodeo, and team penning; supporting and conducting educational and informational activities to increase public awareness of equine and agricultural related issues;

sponsoring equine and agricultural activities; educating the public about equine and agricultural activities; promoting and assisting youth in developing and achieving their personal best by participation in equine and livestock sporting events; promoting and encouraging self-confidence and integrity in youth; and encouraging community involvement in livestock events.

Furthermore, your bylaws indicate you are a membership organization. You offer nontransferable individual and family memberships. Individual memberships are open to any person 18 years old or older, who pay the annual dues of t dollars; family memberships are open to any family with the head of the household over 18 years old and will include any dependent children regardless of age. Family membership dues are u dollars. Members have free use of your facilities which include a barn, an arena and bleachers, and a concession stand. Other membership privileges consist of:

- Free admission to club sponsored events for members in good standing;
- Voting rights for all members over 18 years of age in good standing;
- Boarding their horse on your grounds for v dollars per month;
- The opportunity to participate in amateur events.

You explained that you conduct community and family events for both members and the community throughout the year to raise funds. Specifically, you host an annual professional rodeo scheduled during the summer to raise funds for the operation and maintenance of your facility. The rodeo is a competition for professional riders to compete in their various rodeo specialties and takes place at your facility. The rodeo is responsible for % of your revenue and is funded mainly by local advertising and sponsorships. You also indicated that the rodeo, more than any of your other events, attracts people from the local community and from surrounding areas to your facility and provides a wholesome and fun activity for the entire family.

You also conduct an annual large barrel run competition in late spring at a nearby facility which is covered and larger than yours. Contestants from numerous states pay entry fees and % of those fees are paid out to the winners and % is retained by you. Proceeds from this event account for about % of your revenue.

You further explained that most of the proceeds from the barrel run are dedicated to the F, whose purpose is to promote and help raise money for the youth members, who compete in agricultural and/or equine related events. Your members in good standing can allow their children who range in age from K-12 to participate in the F in order for them to receive funds for travel and entry fees for board approved events to help defray the costs of competitions. The children can only receive funds if they and their parents complete so many volunteer hours at each required sponsored event with a completed and signed work slip. Specifically, the amount of funds the child may receive depends on the number of volunteer hours they and their parents have worked. Once they have submitted their work slips, they can request funds by submitting verification that they will be attending the board qualifying event. Upon completion of the program requirements, they receive money for the approved events. The child must attend the event prior to the end of the fiscal year and subsequently provide proof of their attendance. If a child receives funds and does not attend a board qualified event, they must reimburse you for the funds. Once the child has received the funds and attends the qualifying event, they can begin meeting the next years requirements concerning volunteer hours.

You also regularly offer smaller events at your facility such as playdays, cattle sortings, and additional smaller barrel runs for your members enjoyment, and entertainment. Fees for these events are kept low and are used to

defray the expenses of producing the event. Proceeds from these events generate the remaining 10% of your annual income.

You also indicated that:

- You are operated by volunteers.
- You promote your activities to the public through social media, flyers, and relevant publications.
- You are a supporter of other charitable organizations whose mission involves engaging youth to receive their full potential.
- You have used about % of your proceeds for community outreach activities such as assisting financially needy with expenses.

Finally, you wrote that upon receiving exemption under IRC Section 501(c)(3), you will be able to apply for a bingo license in B. You then plan to conduct bingo games in surrounding counties as a source of revenue to maintain your facilities and conduct your charitable activities.

Law

IRC Section 501(c)(3) provides for the recognition of exemption of organizations that are organized and operated exclusively for religious, charitable, or other purposes as specified in the statute. No part of the net earnings may inure 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 under IRC Section 501(c)(3) an organization must be organized and operated exclusively for one or more of the exempt purposes specified in that section. If an organization fails to meet either the organizational test or the operational test, it does not qualify for exemption.

Treas. Reg. Section 1.501(c)(3)-1(b)(1)(i) provides that an organization is organized exclusively for one or more exempt purposes only if its articles of organization:

- (a) Limit the purposes of such organization to one or more exempt purposes; and
- (b) Do not expressly empower the organization engage, otherwise than as an insubstantial part of its activities, in activities that in themselves are not in furtherance of one or more exempt purposes.

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 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.

Rev. Rul. 68-224, 1968-1 C.B. 262 describes an organization that conducts an annual festival centered around regional customs and traditions that qualified for exemption under IRC Section 501(c)(4). The festival takes place in an agricultural region where interest in horses and Western traditions runs high and enjoys the broad involvement of local citizens. The revenue ruling holds that, in carrying on these activities, the organization provides recreation for the community and generally promoted civic betterments and social improvements within the meaning of IRC Section 501(c)(4).

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279 (1945), the Supreme Court determined the activities of that organization were aimed at promoting the prosperity and standing of the business community and therefore, served a substantial private purpose. It concluded that the presence of a single nonexempt purpose, if substantial in nature, will preclude exemption regardless of the number or importance of statutorily exempt purposes.

Application of law

You do not meet the two main tests set forth in of IRC Section 501(c)(3) and Treas. Reg. Section 1.501(c)(3)-1(a)(1). An organization must be both organized and operated exclusively for purposes described in IRC Section 501(c)(3). You have failed to meet both requirements, as explained below.

The purposes in your Articles of Incorporation state in part that you are organized for aiding, assisting, and fostering the planning and development of recreational activities in any way associated with horses that is legal and safe and for upgrading the quality of horses. Because your Articles of Incorporation do not limit your purposes to those described in Treas. Reg. Section 1.501(c)(3)-1(b)(1)(i), you fail the organizational test under IRC Section 501(c)(3).

You are not operated exclusively for one or more exempt purposes as required by Treas. Reg. Section 1.501(c)(3)-1(c)(1). A substantial portion of your activities consists of operating a club for your members, hosting a professional rodeo for the community and conducting a large barrel run which attracts professionals from nearby states. Further, the proceeds from the annual barrel run are used to fund the competition expenses of members' children as long as the member and their child volunteer a specific number of hours. These facts indicate that you are operated for substantial nonexempt social, recreational and private purposes, which preclude exemption under IRC Section 501(c)(3).

You are similar to the organization described in Rev. Rul. 68-224 which qualified for exemption under IRC Section 501(c)(4). Like the organization described in the Revenue Ruling, you are conducting a rodeo for the community as well as a barrel run. These events attract people from the local community and from surrounding areas and provides a wholesome and fun activity for the entire family. You are also primarily conducting activities which provides recreation for the community which precludes exemption under IRC Section 501(c)(3).

You are like the organization described in Better Business Bureau. Although you may have some educational and charitable purposes, you are operated for substantial nonexempt social, recreational, and private purposes. The presence of these substantial non-exempt purposes prevents exemption under IRC Section 501(c)(3).

Conclusion

Based on the above facts and analysis, you do not meet the organizational test for IRC Section 501(c)(3) because your organizing document does not limit your purposes to one or more exempt purposes of IRC Section 501(c)(3). You also do not meet the operational test for IRC Section 501(c)(3) because you are operated for substantial nonexempt purposes. Accordingly, you do not qualify for exemption under IRC Section 501(c)(3).

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 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 or call 877-777-4778.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements