



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

Number: **202129015**
Release Date: 7/23/2021

Date:
04/27/2021
Employer ID number:
Form you must file:
Tax years:
Person to contact:
Name:
ID number:
Telephone:

UIL: 501.00-00, 501.03-00, 501.30-30

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:
 02/10/2021
 Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = State
 C = City
 D = Date
 g percent = Number
 h percent = Number

UIL:

501.00-00
 501.03-00
 501.03-30

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 incorporated in state of B on D. Your purpose, per your Articles of Incorporation, is to promote and carry on various civic activities for the betterment of the city C and to assist in promotion and development of the literacy, benevolence, scientific, industrial, and civic interests of the city C, and own such properties as may be necessary therefore. Your Articles authorize the issuance of capital stock, on a not for profit basis with no dividends or profits to be paid. The stock is issued "merely to show the respective interest of each stockholder in the corporation." Your Articles are silent regarding the disposition of your assets upon dissolution. Although you provided a dissolution policy, it was a separately adopted policy and not a part of your organizing document.

You are currently exempt under IRC Section 501(c)(4). You are now seeking exemption under Section 501(c)(3).

You described your primary activity as facilitating the C Rodeo, a _____ event in C with _____ of attendees _____ . You are responsible for planning, coordinating, and raising the funds for

rodeo expenses. After rodeo expenses have been paid, the excess funds are distributed to other organizations such as local scout troops, a local senior care facility, a men's club, local golf course, recreation commission, other community organizations that improve the quality of life for the citizens. You require the potential grant recipient to submit a proposal stating the purpose of the grant and how the proposal will benefit the community. You also award scholarships to graduating seniors. You state the obtaining IRC Section 501(c)(3) status will help you to expand your solicitation for funds and consequently increase scholarship amounts.

Your financial data indicates that the primary source of your revenue is ticket sales from the rodeo events, followed by food and beer sales. You also receive revenue from sponsors, program sales, and other assorted sales. Your largest expenses are related to the rodeo, such as professional fees, including the stock contactors, announcers, judges, etc. Other expenses include real estate taxes, utilities, and other event related expenses, such as travel and cost of goods sold. You distribute a negligible amount for scholarships, less than g percent of your total revenue per year. On average, you distribute less than h percent to charitable organizations per year.

Law

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

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

Treas. Reg. 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 limit its purposes to one or more exempt purposes and do not expressly empower it to engage, otherwise than as an insubstantial part, in activities which in themselves are not in furtherance of one or more exempt purposes

Treas. Reg. 1.501(c)(3)-1(b)(1)(iii) provides that an organization is not organized exclusively for one or more exempt purposes if its articles expressly empower it to carry on, otherwise than as an insubstantial part of its activities, activities that are not in furtherance of one or more exempt purposes.

Treas. Reg. Section 1.501(c)(3)-1(b)(4) provides that an organization is not organized exclusively for one or more exempt purposes unless its assets are dedicated to an exempt purpose. Assets will be considered dedicated if, upon dissolution, assets would be distributed for one or more exempt purposes.

Treas. Reg. Section 1.501(c)(3)-1(c)(1) states 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.

Revenue Ruling 67-216, 1967-2 C.B. 180, states that a nonprofit organization formed and operated exclusively to instruct the public on agricultural matters by conducting annual public fairs and exhibitions of livestock, poultry, and farm products qualified for exemption from federal income tax under IRC Section 501(c)(3). The organization's activities and exhibits are planned and managed by or in collaboration with person whose

business it is to inform and instruct farmers and the general public on agricultural matters, and the resulting displays are designed to be instructive. The presence at the fair of recreational features such as midway shows, refreshment stands, and a rodeo are incidental to the fair's overall educational purpose.

Rev. Rul. 77-366, 1977-2 C.B. 192, states that a nonprofit organization that arranges and conducts wintertime ocean cruises during which activities to further religious and educational purposes are provided in addition to extensive social and recreational activities is not operated exclusively for exempt purposes and does not qualify for exemption under IRC Section 501(c)(3).

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U. S. 279 (1945), the Supreme Court of the United States interpreted the requirement in IRC Section 501(c)(3) that an organization be "operated exclusively" by indicating that an organization must be devoted to exempt purposes exclusively. This plainly means that the presence of a single non-exempt purpose, if substantial in nature, will destroy the exemption regardless of the number and importance of truly exempt purposes.

In Help Children, Inc. v. Commissioner, 28 T.C. 118 (1957) which determined that an organization which conducted bazaars, dances, contests, and other forms of amusement in order to acquire funds for the care and assistance of needy children and children's institutions through contributions did not qualify for exemption under IRC Section 501(c)(3). The facts in that case indicated that an insignificant amount of the organization's gross receipts were actually distributed to charitable organizations leading the court to the conclusion that the organization was not operated for exempt purpose.

In St. Louis Science Fiction Limited v. Commissioner, 49 TCM 1126, 1985-162 (1985), the Tax Court held that a science fiction society failed to qualify for tax-exempt status under IRC Section 501(c)(3). Although many of the organization's functions at its annual conventions (the organization's principal activity) were educational, its overall agenda was not exclusively educational. A substantial portion of convention affairs were social and recreational in nature.

Application of law

IRC Section 501(c)(3) and Treas. Reg. Section 1.501(c)(3)-1(a)(1) set forth two main tests for an organization to be recognized as exempt. An organization must be both organized and operated exclusively for purposes described in Section 501(c)(3). Based on the information you provided in your application, we conclude that you fail both tests.

You do not meet the organizational test under Treas. Reg. 1.501(c)(3)-1(b)(1)(i) because your Articles of Incorporation do not limit your purposes to one or more exempt purposes and they expressly empower you to engage in activities which are not in furtherance of one or more exempt purposes as described in Treas. Reg. 1.501(c)(3)-1(b)(1)(iii). Additionally, your Articles are silent regarding the disposition of your assets upon your dissolution, which also precludes exemption as described in Treas. Reg. Section 1.501(c)(3)-1(b)(4).

You do not meet the operational test under Treas. Reg. 1.501(c)(3)-1(c)(1) because your activities further a substantial non-exempt purpose. Your primary activity is the planning and conducting a rodeo for the community. The facts show you are not operated exclusively for charitable and educational purposes, but for the social and recreational purpose of providing a rodeo for entertainment of the community. Although you do

provide some charity, such as scholarships and donations to community organizations, those donations are minimal, and not your primary purpose.

Unlike the organization described in Rev. Rul. 67-216, your rodeo activities are not incidental to any charitable or educational purposes. The annual event described in that ruling had recreational features, but the main purpose was educational. You did not describe any educational activities associated with the rodeo you conduct. Similar to Rev. Rul. 77-366, you have extensive social and recreational activities. Accordingly, you do not qualify for exemption under IRC Section 501(c)(3).

The scholarship distributions totaling only g percent of your total revenue, mirrors the organization described in Help Children, Inc. which was found not operated exclusively for an exempt purpose. Like the organization described in St. Louis Science Fiction Limited, your recreational and social purposes outweigh any IRC Section 501(c)(3) purposes you may have. Although you state that you will donate excess cash to community organizations and provide scholarships, this purpose is only incidental to your recreational events.

Your activities are not inherently charitable. Rather, your primary purpose is providing a rodeo for the entertainment of the community, which is a substantial non-exempt purpose and precludes exemption under IRC Section 501(c)(3), as explained in Better Business Bureau of Washington, D.C., Inc.

Conclusion

Based on the information provided, you do not qualify for exemption as an organization described in IRC Section 501(c)(3). You are neither organized nor operated exclusively for exempt purposes as set forth in Section 501(c)(3). You have a substantial non-exempt purpose of conducting rodeo events for your community, which furthers social and recreational activities and precludes you from exemption under Section 501(c)(3). Your exemption under Section 501(c)(4) remains in effect.

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