



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

Number: **202138007**
Release Date: 9/24/2021

UIL Number: 501.03-30, 501.33-00, 501.35-00

Date:
June 30, 2021
Employer ID number:

Form you must file:

Tax years:

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:
April 27, 2021
Employer ID number:

Contact person/ID number:

Contact telephone number:

Contact fax number:

Legend:

B = state
C = date
D = horse
E = show 1
F = show 2
G = association
H = show 3
x = percentage 1
y = percentage 2

UIL:

501.03-30
501.33-00
501.35-00

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 incorporated in the state of B on C. Your articles of incorporation indicate you were organized exclusively for charitable, religious, educational, and scientific purposes within the meaning of IRC Section 501(c)(3). Additionally, they indicate your specific purpose is to "encourage the development of and public interest in the promotion, exhibition and enjoyment of the D breed of horse" by conducting the following:

- Providing free reining clinics across the U.S. and Canada;
- Conducting free lectures and educational classes;
- Providing D horses of all ages a place to compete;
- Sponsoring youth programs, _____ and non pro derbies;
- Sponsoring regional awards programs; and

- Raising funds through raffles and events and donating the proceeds to accomplish the foregoing tasks.

You are devoted to “promoting the natural athletic abilities and versatility of D and Half-D horses through competitions, usually in conjunction with other D horse shows.” Your premiere event is the E, held in conjunction with the F each year. F is open to the public and is one of the biggest, if not the biggest, horse shows in the world, drawing hundreds of thousands of spectators from around the country. You estimated F takes up about y percent of your total activities and the organization and execution of the reining portion of F is your primary activity. Your goal is to increase the awareness in the general public of the D breed of horse through the competitions that you organize while improving and promoting the D breed.

You engage in informal outreach efforts to educate the D horse community about the benefits of competing in your competitions. You are primarily funded by selling memberships and accepting donations from the public, but also selling sponsorships for events and advertising in your programs.

Your sports program promotes competitions for the D horse breed and you work in conjunction with a related organization, G, to put on reining competitions that are a part of larger and more general D horse shows. G also helps provide structure for horse shows at which you have competitions. You also organize a competition for younger horses as part of your F event where horse owners can nominate their horses to compete, with prize money going to top performing horses.

Participants in your competitions are required to pay an entry fee. In order to be eligible for prize money, participants must also be one of your members. You estimated that x percent of your financial resources are paid back to participants of your events. The remainder go toward administrative costs, insurance, and show staff.

Although you offered clinics in the past to assist members with preparing for national and international competitions, you no longer conduct this activity. You are also not affiliated with or a member of the United States Olympic Committee or any other national or international sports organizations. Participants in your events are not contenders for the Olympic or Pan-American games, and participants are not required to meet a certain level of talent or achievement to compete in your events. You also do not currently conduct training programs to prepare athletes for competition at the national or international level. You indicated that although you organize youth competitions at both the F and H events, only about % of your members are under the age of 18.

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.

IRC Section 501(j) provides generally that a “qualified amateur sports organization” that otherwise satisfies the requirements of Section 501(c)(3) will qualify as exempt regardless of whether it provides athletic facilities or equipment and regardless of whether its membership is local or regional in nature. Section 501(j) also defines a “qualified amateur sports organization” as any organization organized and operated exclusively to foster national or international amateur sports competition if such organization is also organized and operated primarily to conduct national or international competition in sports or to support and develop amateur athletes

for national or international competition in sports.

Treasury Regulation Section 1.501(c)(3)-1(a)(1) states 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 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 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) provides an applicant must show that it serves a public rather than a private interest and specifically that it is not organized or operated for the benefit of private interests, such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i) provides that the term "educational," as used in IRC Section 501(c)(3), relates to the instruction of the public on subjects useful to the individual and beneficial to the community.

Rev. Rul. 80-215, 1980-2 C.B. 124 held that an otherwise qualifying organization that is formed to develop, promote, and regulate a sport for individuals under 18 years of age by organizing local and statewide competitions, promulgating rules, organizing officials, presenting seminars, distributing a newsletter, and otherwise encouraging the growth of the sports qualifies for exemption under IRC Section 501(c)(3).

In Better Business Bureau of Washington, D.C. v. U.S., 326 U.S. 279, 283 (1945), 66 S. Ct. 112, 90 L. Ed. 67, 1945 C.B. 375, the Supreme Court held that the presence of a single nonexempt purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly exempt purposes.

Application of law

To meet the requirements of IRC Section 501(c)(3), an organization must exclusively further exempt purposes and be able to show it satisfies the organizational and operational tests under Section 501(c)(3) as detailed in Treas. Reg. Section 1.501(c)(3)-1(a)(1). Specifically, an organization that fails to meet either the organizational test or the operational test, or both, is not exempt.

You do not exclusively provide education and instruction to the public as defined in Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i). You offer some educational instruction and free clinics, yet your primary activity is the operation and promotion of E though the F, a competitive event designed to showcase a particular horse breed. While some of your activities are educational in nature, these are not exclusive. The majority of your activities still serve social and recreational purposes. As more than an insubstantial part of your activities are not in furtherance of an exempt purpose you fail to meet the operational test as described in Treas. Reg. Section 1.501(c)(3)-1(c)(1).

You do not meet the requirements to qualify as an organization under IRC Section 501(j). Preparing members for national or international competitions is a past activity and you conduct no training programs to prepare

athletes for competition at the national or international level. You share no affiliation with the USOC or related games and organizations, and participants are not required to meet a certain level of talent or achievement to compete in your events.

You are not similar to the organization described in Revenue Ruling 80-215, which held that an otherwise qualifying organization that is formed to develop, promote, and regulate a sport for individuals under 18 years of age qualifies for exemption under IRC Section 501(c)(3). You indicated that although you organize youth competitions at both the F and H events, only about % of your members are under the age of 18. The limitation on participation in your events is designed towards the breed of horse, D, rather than age or geographic location of competitors.

Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not organized or operated exclusively for exempt purposes unless it serves a public rather than a private interest. You are promoting the private interests of members and owners of the D breed of horses, by giving them an opportunity to showcase their individual horses to increase their value as well as win monetary prizes if their horses perform well in your competitions. You also seek to improve and promote the D breed of horse. Because you operate for the private interests of your members through these events you are not primarily serving public purposes and do not qualify.

Although you offer educational events, free clinics and some youth events, you are also conducting activities in a more than insubstantial manner that serve non-exempt purposes. As provided by Etter Business Bureau of Washington, D.C., Inc. v. Commissioner, the presence of substantial non-exempt purposes precludes exemption under IRC Section 501(c)(3).

Conclusion

Based on the information submitted, you are not operated exclusively for one or more purposes described in IRC Section 501(c)(3). Your activities are recreational in nature, but not primarily for the benefit of a charitable class nor to foster national or international sports competition. You also operate for the private benefit of your members and for a substantial purpose that is not exempt 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.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements