



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
1100 Commerce Street, MC 4920DAL  
Dallas, TX 75242

TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

Release Number: 202221013  
Release Date: 5/27/2022  
UIL Code: 501.03-00

Date: 01/06/2021

Taxpayer ID Number:

Form:

Tax Period(s) Ending:

Person to Contact:

Identification Number:

Telephone Number:

**CERTIFIED MAIL – Return Receipt Requested**  
**LAST DAY FOR FILING A PETITION WITH THE TAX COURT:**

Dear \_\_\_\_\_,

This is a final determination that you do not 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), effective January 1, 20 . Your determination letter dated February 13, 20 is revoked.

Our adverse determination as to your exempt status was made for the following reasons.

Organizations described in IRC Section 501(c)(3) of the Code and exempt under Section 501(a) must be both organized and operated exclusively for exempt purposes. You have not demonstrated that you are operated exclusively for charitable, educational, or other exempt purposes within the meaning of 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. You have not established that you have operated exclusively for an exempt purpose.

As such, you failed to meet the requirements of IRC Section 501(c)(3) and Treasury Regulations Section 1.501(c)(3)-1(a), in that you have not established that you were organized and operated exclusively for exempt purposes and that no part of your earnings inured to the benefit of private shareholders or individuals.

Contributions to your organization are no longer deductible under IRC Section 170.

Organizations that are not exempt under IRC Section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms, and information please visit [www.irs.gov](http://www.irs.gov).

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of IRC Section 7428 in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination was mailed to you. Please contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment by referring to the enclosed Publication 892. You may write to the courts at the following addresses:

United States Tax Court  
400 Second Street, NW  
Washington, DC 20217

U. S. Court of Federal Claims  
717 Madison Place, NW  
Washington, DC 20005

U. S. District Court for the District of Columbia  
333 Constitution Ave., N.W.  
Washington, DC 20001

Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under IRC Section 7428.

We'll notify the appropriate state officials (as permitted by law) of our determination that you aren't an organization described in IRC Section 501(c)(3).

You may be eligible for help from the Taxpayer Advocate Service (TAS). 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 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 1-877-777-4778.

Taxpayer Advocate assistance can't be used as substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determination, nor extend the time fixed by law that you have to file a petition in court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling.

You can get any of the forms or publications mentioned in this letter by calling 800-TAX-FORM (800-829-3676) or visiting our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs).

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Enclosures:  
Publication 892

Sean E. O'Reilly

Director, Exempt Organizations Examinations



Department of the Treasury  
Internal Revenue Service  
Tax Exempt and Government Entities

Date:  
June 12, 2020  
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:  
ID number:  
Telephone:  
Fax  
Address:

Manager's contact information:

Name:  
ID number:  
Telephone:  
Response due date:

**CERTIFIED MAIL – Return Receipt Requested**

Dear \_\_\_\_\_ :

**Why you're receiving this letter**

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(3).

**If you agree**

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(3) for the periods above.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

**If you disagree**

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

**If we don't hear from you**

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final adverse determination letter.

**Contacting the Taxpayer Advocate Office is a taxpayer right**

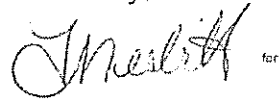
The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, 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.

**For additional information**

You can get any of 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 shown at the top of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean E. O'Reilly".

Sean E. O'Reilly  
Director, Exempt Organizations  
Examinations

Enclosures:  
Form 886-A  
Form 6018  
Pub 892  
Pub 3498

|                                 |   |                               |
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| Form <b>886-A</b><br>(May 2017) | Department of the Treasury – Internal Revenue Service<br><b>Explanations of Items</b> | Schedule number<br>or exhibit |
| Name of taxpayer                | Tax Identification Number (last 4 digits)   | Year/Period ended             |

**ISSUES:**

1. Whether \_\_\_\_\_ is operated exclusively for exempt purposes described within Internal Revenue Code section 501(c)(3)?
  - 1.a Whether \_\_\_\_\_ is engaged primarily in activities that accomplish an exempt purpose?
  - 1.b Whether \_\_\_\_\_ is operated to serve a public rather than a private interest?
  - 1.c \_\_\_\_\_ involvement in bargain sales transactions is more than an insubstantial part of its activities?
2. Whether any part of the net earnings of \_\_\_\_\_ inured to the benefit of any private shareholder or individual?
3. Whether revocation of \_\_\_\_\_ exempt status is appropriate?

**FACTS:**

\_\_\_\_\_ hereinafter, \_\_\_\_\_ was incorporated on January 30, 20\_\_\_\_ in \_\_\_\_\_ as a not-for-profit corporation and was recognized by the Internal Revenue Service as a tax-exempt organization as described in section 501(c)(3) in February 20\_\_\_\_. The articles of incorporation state its purpose is to improve the quality of life for those in need by providing humanitarian assistance and educational programs. \_\_\_\_\_ was recognized by the IRS as exempt from federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code in February 13, 20\_\_\_\_.

\_\_\_\_\_ was founded by \_\_\_\_\_, an entrepreneur. Per \_\_\_\_\_ for \_\_\_\_\_, \_\_\_\_\_ is the President; \_\_\_\_\_, Secretary; \_\_\_\_\_, Treasurer; and \_\_\_\_\_, Executive Director of the organization. \_\_\_\_\_ does not have any employees and is operated solely by \_\_\_\_\_. The organization is located at \_\_\_\_\_.

\_\_\_\_\_ purports to provide online education to train individuals to become entrepreneurs and to develop business' skills necessary to improve the quality of their life. The organization purports to provide training materials for US and international students.

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During the examination periods, [redacted] claimed that it contracted with hereinafter referred to as [redacted] to raise funds for the organization. A contract was not provided for review. Funds are raised by [redacted] through participation in bargain sale transactions. The majority of [redacted] revenue is generated through the purchase and sale of real estate by the organization. During the interview, the president stated that [redacted] does not receive any public charitable contributions to fund the activities. The organization solely relies on income earned through bargain sale transactions to fund activities and to pay expenses [redacted] earned \$ [redacted] in annual revenue in 20 [redacted] and \$ [redacted] in 20 [redacted]. Financial information provided by [redacted] showed that it received [redacted] % and [redacted] % of its revenue from bargain sales for tax years 20 [redacted] and 20 [redacted], respectively. For 20 [redacted], [redacted] expended approximately \$ [redacted] for expenses. Of this amount \$ [redacted] was paid to [redacted] for the amount owed for the creation of the website and its content which was completed in 20 [redacted] and 20 [redacted]. [redacted] filed Form 990-N (e-Postcard) in 20 [redacted] and 20 [redacted], and Form 990-EZ return in 20 [redacted]. [redacted] made charitable contributions totaling \$ [redacted] in 20 [redacted] and 20 [redacted] to cover medical expenses for a disabled law enforcement officer, payment to missionary in Africa and other persons selected by the founder.

**Purported Primary Activity: Educational Programs:**

[redacted] states that its primary focus is on education and focuses on entrepreneurial business skills. The program integrates religious teachings from the bible with business law teaching to develop students into successful entrepreneurs. Also, [redacted] purpose is to improve the quality of life for individuals in pursuit of business education.

[redacted] produces educational training programs for viewing via their website for students worldwide. The program provides courses in business skills and teaches students how to become a successful entrepreneur. The program is free to all students. Students log onto the [redacted] website [redacted]. Per copy of invoice from [redacted], the billing was for content creation which consisted of [redacted] hours of video recordings and production. The billing was also for [redacted] PowerPoint slides including a study guide. As indicated by the invoice, the website and materials were created by [redacted]. IDR 6 indicated that the information was created in 20 [redacted] and 20 [redacted]. According to IDR 6, "The course is online. There are [redacted] sessions totaling over [redacted] hours of teaching time. Students can follow the sequence of video lessons, as that is in effect, their syllabus". "Instead of training handbooks, everything is digital and downloadable. All [redacted] of the lessons have corresponding PowerPoint slide presentations they can print out if so desired".

Course materials are available at no cost to students. Students can download all the training sessions and learn at their individual pace. Per IDR 6, students are not required to take a written examination. The response also stated that "classes are not LIVE, so not possible for LIVE interaction. However, they are welcome to contact us at the email address provided with any questions they may have." The student population includes international students, veterans, law

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enforcement and anyone interested in learning business skills. According to the website, students attend from \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and the \_\_\_\_\_.

\_\_\_\_\_ was asked in IDR 6 "How do you keep track of who access your website?". In response, \_\_\_\_\_ stated that it is unable to track who visit the site and when. Thus, it was unable to provide the percentage of students who were foreign students or were veterans. IDR 6 also asked about who was responsible for maintenance of the website and are the PowerPoints modified or updated? In response, \_\_\_\_\_ stated that \_\_\_\_\_ was responsible for maintenance and that the PowerPoints can be updated. The educational program is not accredited and not recognized by US Department of Education.

\_\_\_\_\_ engaged in the following activities during 20\_\_\_\_, 20\_\_\_\_ and 20\_\_\_\_:

**Fundraising: Bargain Sales**

\_\_\_\_\_ president promotes bargain sales to fund activities. As demonstrated in the schedule below. For 20\_\_\_\_, \_\_\_\_\_ generated total revenue of \$\_\_\_\_\_. Of this amount, \$\_\_\_\_\_ was generated from bargain sales. The bargain sales represent approximately \_\_\_\_\_ % of the revenue generated.

IDR 6 requested a job description for \_\_\_\_\_ duties and responsibilities of \_\_\_\_\_. The response indicates that his primary responsibilities include the following:

- Approaching property owners with real estate for sale and discussing bargain sale options
- Preparing offers on prospective properties
- Creating and teaching content
- Creating corresponding PowerPoint slides
- Recording video lessons
- Creating and maintaining website
- Creating and maintaining learning lab where students access training.

Per Form 990-EZ for 20\_\_\_\_, it reported that he works an average of \_\_\_\_\_ hours per week.

Per response to IDR 5, \_\_\_\_\_ first became aware of \_\_\_\_\_ in the Spring of 20\_\_\_\_ when it was contacted by \_\_\_\_\_ to see if \_\_\_\_\_ was interested in becoming a nonprofit client for \_\_\_\_\_. The response also indicated that \_\_\_\_\_ and \_\_\_\_\_, the founder of \_\_\_\_\_, have known each other over many years because \_\_\_\_\_ was a sale trainer and had done sales training for \_\_\_\_\_ various companies.

According to the president, \_\_\_\_\_ participated in "bargain sales" with the help of \_\_\_\_\_, a national commercial and residential real estate company. \_\_\_\_\_ specializes in serving real estate investors and nonprofit organizations. The transaction begins with a donor of distressed property who wants to unload the property and a 501(c)(3) charity is willing to



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purchase the property. being a middleman facilitates the transaction by providing a 501(c)(3) buyer from its list of charities. At closing, the donor receives a combination of cash and substantial tax deduction (when the appraised value is greater than the FMV). The public charity acts as an accommodation party in the arrangement.

brokers handle the solicitation of donations and the subsequent sale of properties on behalf of According to IDR 5, contacts to see if they were interested in entertaining a bargain sale offer. If interested, would proceed forward with a bargain sale offer on behalf. prepares the letter of intent and/or draft purchase agreement which is sent to for them to approve or reject. prepares all legal documents for the sale which are signed by president. IDR 5 specified that disclosed the property specifics as indicated in the Letter of Intent and/or the draft purchase agreement. The initial acquisition, brokerage representation, financial services, appraiser services, underwriting, management and disposition are handled by . An escrow account is also open in the name of by . IDR 5 asked who provided the initial deposits on each real estate purchase transaction?

In response stated that " would advance funds to the seller and/or agent on behalf of for the initial deposits and later recover those advances from the sale or loan proceeds." An acknowledgement letter is issued to the donor by . The acknowledgement letters thanks, the donor for the contribution, states the amount of cash received, value of the property and the gift value (charitable contribution). When the sale is completed, manages the property for the . provides the Form 8283 that states the appraised value of the property.

in some cases, has a buyer waiting to purchase the property from at closing. When the property is sold by brokers, is paid a fee after from the net cash left from the sale. The cash payments are the benefit paid for the use of the exempt status

Some properties are sold within days of purchase. For properties not immediately sold, a is established in a fictitious name to hold title to the property. The property is re-sold by when a buyer is located. Once the sale is completed, pays the charity a fee. The fee is reported on Form 990 by the exempt organization. The transaction is a *Quid pro quo*. The charity receives cash in exchange for providing tax-exempt charitable deduction to the seller. files Form 8282 with the IRS to report the sale of the property.

participated in bargain sale transactions with . received direct deposit of \$ from on April 04, 20 . The following schedule is a list of properties and the amount paid by to for "bargain sales" of the assets:

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| Legal Name | Date Acquired | Date Property Sold | Gross Proceeds from Sale | Fees |
|------------|---------------|--------------------|--------------------------|------|
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|            |               |                    |                          |      |

maintains one checking account at . The account is used to deposit funds and make disbursements. has sole signature authority and control over the checking account used during the examination periods.

does not have any employees and is operated solely by from his home in . He does not accept a salary from the organization. During the interview, the president stated that receives income from through participation in bargain sale transactions. A review of books and records reveals deposited \$ dollars in account at in April 20 .

website has a "contact" link which includes an "Initial Inquiry Form" (inquiry form). The inquiry form stated the following ". The Form also has the following information:

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- REAL ESTATE

"

"

- PLANES, BOATS, AUTOMOBILES, RV'S, INVENTORY, SCRAP METAL ETC.

"

"

Use of Assets is sole owner and operates hereinafter, " " a related business. During the examination periods, contracted with " " to develop a website for the organization. produced educational videos and maintains the organization's website.

The website was created in 20 and 20 . According to , was not paid in 20 , 20 or 20 because the organization did not have enough revenue to cover the expense. In April 20 received \$ for production of the training contents as noted on the invoice discussed above.

Review of website showed an advertisement for a book titled that was authored by posted to the website. books and records did not show that was compensated for posting private book advertised on its website.

Also, in 20 , obtained a personal loan for \$ from . The loan was timely repaid. The interest rate charged was reasonable. The repaid loan was deposited into bank account.

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**LAW:**

IRC § 501(c)(3) exempts from Federal income tax: corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation and which does not participate in or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

Regulation section 1.501(c)(3)-1(a)(1), Organizational and operational tests, provides that in order to be exempt as an organization described in 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.

Regulation section 1.501(c)(3)-1(c)(1) provides that an organization will be regarded as "operated exclusively" for one or more exempt purpose only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in 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.

Regulation section 1.501(c)(3)-1(c)(2) provides that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals. Section 1.501(c)(3)-1(d)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, it is necessary for an organization to establish 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. § 1.501(c)(3)-1(d)(3) defines the term educational as the instruction or training of the individual to improve or develop his capabilities, or the instruction of the public on subjects useful to the individual and beneficial to the community. The regulation further provides that an organization may be educational even though it advocates a particular position or viewpoint, so long as it presents a sufficiently full and fair exposition of the pertinent facts to permit the public to form an independent opinion or conclusion. An organization is not educational if its principal function is the mere presentation of unsupported opinion. Treas. Reg. § 1.501(c)(3)-1(d)(3).

Section 1.501(c)(3)-1(d)(2) of the regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense and includes the promotion of education.

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In Better Business Bureau of Washington, D.C., Inc. v. U.S., 326 U.S. 279 (1945), the Supreme Court stated that an organization is not operated exclusively for charitable purposes if it has a single non-charitable purpose that is substantial in nature.

The words "private shareholder or individual" in section 501 refer to persons having a personal and private interest in the activities of the organization. Treas. Reg. § 1.501(a)-1(c).

The inurement prohibition provision "is designed to prevent the siphoning of charitable receipts to insiders of the charity . . ." United Cancer Council v. Commissioner, 165 F.3d 1173 (7th Cir. 1999). A "private shareholder or individual" for purposes of a private inurement analysis has been interpreted to mean an insider of the organization. See Orange County Agricultural Society, Inc. v. Commissioner, 893 F.2d 529, 534 (2d Cir. 1990). The prohibited private inurement involves using the assets of the exempt organization for the benefit of the insider; examples include payment of a percentage of revenue, lending money, and payment of personal expenses. Founding Church of Scientology v. United States, 412 F.2d 1197 (Ct. Cl. 1969).

Prohibited inurement is strongly suggested where an individual or small group has exclusive control over the management of the organization's funds. The Church of Eternal Life and Liberty, Inc. v. Commissioner, 86 T.C. 916, 927 (1986); Basic Bible Church v. Commissioner, 74 T.C. 846, 857 (1980); Church of the Transfiguring Spirit v. Commissioner, 76 T.C. 1, 7 (1981).

Section 4958(c)(1)(A) of the Code, in part, defines an "excess benefit transaction" as "any transaction in which an economic benefit is provided by an applicable tax-exempt organization

**Inurement and Private Benefit**

Revenue Ruling 67-5, 1967-1 C.B. 123, it was held that a foundation controlled by the creator's family was operated to enable the creator and his family to engage in financial activities which were beneficial to them, but detrimental to the foundation. It was further held that the foundation was operated for a substantial non-exempt purpose and served the private interests of the creator and his family. Therefore, the foundation was not entitled to exemption from Federal income tax under section 501(c)(3).

**GOVERNMENT'S POSITION:**

The 501(c)(3) tax exempt status of \_\_\_\_\_ should be revoked because it is not operated exclusively for tax exempt purposes. \_\_\_\_\_ has failed to demonstrate that its primary activity was educational. The online website available to individuals interested in learning business skills does not provide any interaction between students and instructors, and no requirements for students to demonstrate they are learning the materials. \_\_\_\_\_ claimed that its charitable purpose was

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educational training, but its primary emphasis was placed on the bargain sale transactions to generate revenue.

bargain sales activities were not insubstantial. As illustrated in the example below:

purchased property located at \_\_\_\_\_, \_\_\_\_\_, on March 1, 20\_\_\_\_ from \_\_\_\_\_, \_\_\_\_\_, a charitable organization. The purchase price for the property was \$\_\_\_\_, payable at closing date. Based on the Appraiser's opinion on March 1, 20\_\_\_\_, the fair market value of the property (as-is) was \$\_\_\_\_, (\$\_\_\_\_). There was a bargain sale agreement executed between the seller (\_\_\_\_) and the buyer (\_\_\_\_). \_\_\_\_\_ acknowledges in an acknowledgement letter dated April 14, 20\_\_\_\_ to \_\_\_\_\_, that the difference between the purchase price (\$\_\_\_\_) and fair market value (\$\_\_\_\_) is a charitable gift of \$\_\_\_\_.

\_\_\_\_\_ sold the above property on behalf of \_\_\_\_\_ to \_\_\_\_\_ in April 20\_\_\_\_ for \$\_\_\_\_ and filed Form 8282, *Donee Information Return*, to report the transaction. As the transaction reveals, the original seller, \_\_\_\_\_ received a substantial charitable gift of \$\_\_\_\_. \_\_\_\_\_ also benefited because they retained \$\_\_\_\_ of the sales price for services and fees while \_\_\_\_\_ only received \$\_\_\_\_ from the transaction.

\_\_\_\_\_ stated reason for raising funds were to fund charitable purposes, however, \_\_\_\_\_ only expenditures for charitable purposes were \$\_\_\_\_ in 20\_\_\_\_. \_\_\_\_\_, founder and president controls the management, operation and financial affairs of the organization. He makes all decisions for \_\_\_\_\_. He has exclusive controls over \_\_\_\_\_ and the use of its funds. The operations of \_\_\_\_\_ serves a private interest rather than a public interest. There is a substantial private benefit to the president.

Purported Educational Activity

\_\_\_\_\_ claimed that its educational activities are conducted via its website which was created by \_\_\_\_\_ in 20\_\_\_\_ and 20\_\_\_\_. The website requires the individual to create an account by entering an email address and creating a password. It asked for no other information such as name or address. The purported educational activity posted on the website appears to be merely a download of information to a website without any active ongoing involvement or monitoring. There was no information provided such as emails, notices, etc. to show that \_\_\_\_\_ actively reaches out to the general public to inform them of the availability of its program. The inquiry form on its website, while it seeks inquiries on bargain sales, solicits no inquiries relative to its purported educational activities. \_\_\_\_\_ cannot demonstrate that the materials on the website are being used by the general public neither does \_\_\_\_\_ attempts to determine who or if the materials are being used. Although, \_\_\_\_\_ claims that students could send emails to \_\_\_\_\_ if they had any questions, it provided no emails to support such claim. \_\_\_\_\_ does not request for participants to notify them upon completion of the topics and provide no type of acknowledgment to the participants. There is

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no testing done upon completion and no certificates are issued. Review of books and records showed that no significant amount of time or expenses were expended or incurred by in conjunction with its purported educational activity. The president is the sole person conducting work for the charity and according to the Form 990 for tax year 20 , he expended approximately hours each week on activities relating to the organization. While the IDR 6 listed responsibilities to include creating and reaching content; creating corresponding PowerPoint slides; recording video lessons; creating and maintaining a website; and creating and maintaining learning lab, the copy of the invoice provided showed that was compensated in 20 for the provision of such services which were done in 20 and 20 . Thus, the hours being spent could not have been for educational activities since it was supposed to have been done by and there appears to be no ongoing active educational activities being conducted. Since the development of the website, there was no evidence provided to show that continued to expend funds to maintain or update the website. When asked in IDR 5 if the website was updated, responded that it could be updated. Thus, implying that it has not been updated since the original posting. It made no claim that the website was actually maintained or updated periodically or consistently. The financial records did not show any expenditures in 20 and 20 for website services incurred for the 20 tax year. Thus, no expenses were incurred in 20 and 20 relative to the purported educational activities.

The activity of merely making a website available for public use does not demonstrate that students obtained any practical skills. failed to provide contact information on students, dates, and personnel involved in conducting the educational training. The review of the website only shows a listing of business topics students can select to read. There is no formal organized syllabus or outline of a course of study. failed to provide any minutes to show discussions about its educational activities. There was no correspondence on file relative to its educational activities.

Based on analysis above, does not conduct activities similar to that discussed in Treas. Reg. § 1.501(c)(3)-1(d)(3) which defines the term educational as the instruction or training of the individual to improve or develop his capabilities, or the instruction of the public on subjects useful to the individual and beneficial to the community. It has not demonstrated that it provides educational activities in furtherance of its exempt purpose.

### Bargain Sales

Bargain sales activity is not insubstantial but rather is primary activity. bargain sales activity furthered a substantial business purpose that is not related to the exempt purpose to foster education. engagement in bargain sales is non-charitable purpose that is substantial in nature. The organization's tax exemption is being exchanged for money. The seller receives a form 8283 that gives the appraised value of the property. The seller also is issued an

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acknowledgement letter with an inflated value on the deduction. The seller can write off the charitable donation on their tax return.

website included an inquiry form which is a solicitation for bargain sales transactions. Thus, also uses its website to promote its bargain sales. The message on the inquiry form noted the following:

"

In IDR 5, stated that in 20 it contracted with to represent in finding and executing bargain sale transactions. was involved in bargain sales in 20 and bargain sales for 20 resulting in a total of or the two-year period. The bargain sales were the primary source of revenue for . It represents approximately % and % of total revenue for tax years 20 and 20 , respectively, demonstrating that bargain sales were its primary activity.

included in the description of his responsibilities "

"

However, according to IDR 5 and 6, the arrangement with for 20 and 20 did not include such activities. In reviewing responsibilities listed in IDR 6, it was determined that since was paid for the creation of content on the website and that no claims were ever made that was involved in the bargain sales, then would be the person handling the bargain sales. As president, would be the person who would have contacted with a potential bargain sale via the letter of intent and draft purchase agreement which he needed to review and then inform to go forward or not. In conjunction with the sale, several legal documents were sent to for review and signature. Such documents include – Letter of Intent, Real Estate Purchase Agreement, Deed and Settlement Statement. would also be the person that prepared the acknowledgement letters and the Forms 8282. Thus, even at hours per week, it appears that % of this time would be spent on the bargain sales, especially since the records showed no other actions taking place.

The bargain sales activity is not an exempt activity within 501(c)(3) of the Code. For the years under examination, primary activity is bargain sales since its president expends % of his time on bargain sale; % of the revenue is from bargain sale; and it expends no time or resources on educational activities. Thus, does not operate exclusively for exempt purposes as described in section 501(c)(3) of the Code since its bargain sales transactions is more than an insubstantial part of its activities.

Private Benefit

Although has a board of directors, they are not involved in the decisions and daily operations. The president has sole control and authority of the organization management,



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activities, bank account, disbursements, and assets. There are no indications that other board members have any involvement with the finances of the organization.

Upon receipt of the \$ \_\_\_\_\_ in 20\_\_\_\_, \_\_\_\_\_ president paid \_\_\_\_\_ which is a company solely owned by \_\_\_\_\_ president for services it claimed were done in prior years. While there is a website in place, the books and records showed no accounts payable or liability owed to \_\_\_\_\_. In addition, \_\_\_\_\_ borrowed \$ \_\_\_\_\_ from \_\_\_\_\_. Although the loan was repaid with interest, it appears that \_\_\_\_\_ unilaterally loaned the money to his company to further his own personal interest or benefit.

A review of \_\_\_\_\_ website showed that \_\_\_\_\_ uses \_\_\_\_\_ website to market his products such as books without compensating \_\_\_\_\_. Thus, the use of \_\_\_\_\_ website without reasonable compensation.

\_\_\_\_\_, founder and president controls all the management affairs of \_\_\_\_\_ and used his exclusive control to use \_\_\_\_\_ funds for personal benefit in the form of the loan and payment to his company without any supporting documentation the management, operation and financial affairs of the organization. He makes all decisions for \_\_\_\_\_. He has exclusive controls over the organization. \_\_\_\_\_ serves a private interest rather than a public interest. There is a substantial private benefit to the president.

For the organization to be exempt from federal income tax, it must operate exclusively for one or more exempt purposes specified in section 501(c)(3). The non-existence of a charitable activity or de-minimus amount of charitable activities does not satisfy the operational test under section 501(c)(3) of the Code. An organization described in section 501(c)(3) must establish that no more than an insubstantial part of its activities is not in furtherance of an exempt purpose. Treas. Regs. 1.501(c)(3)-1(c)(1)

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations states that an organization is not organized exclusively for any of the purposes specified in section 501(c)(3) of the Code unless it serves public, rather than private interests.

Based on the facts of this examination, \_\_\_\_\_ has failed to substantiate that it is exclusively operated for exempt purposes. \_\_\_\_\_ does not qualify for exemption under IRC Section 501(c)(3) as a charitable organization. Inurement and private benefit to the president outweighs any and all public interest served.

### TAXPAYER'S POSITION

Taxpayer's position with respect to the issues, facts, applicable law and conclusions is unknown.

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**CONCLUSION**

charitable activity is minimal and incidental to its focus on bargain sales. is therefore not operated exclusively for exempt purposes because it does not engage primarily in activities that accomplish an exempt purpose. In addition, more than an insubstantial portion of activities are in furtherance of a non-exempt purpose. More than a substantial part of net earnings inures to the benefit of a private shareholder or individual is operated for the purpose of serving the private interest of rather than public interest. Accordingly, is not an organization described in section 501(c)(3). It is recommended that exempt status be revoked effective January 1, 20 . is not exempt from income tax under section 501(c)(3) effective January 1, 20 .