



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

Date: June 23, 2021

Taxpayer ID number:

Form:

Tax periods ended:

Release Number: 202239014

Release Date: 9/30/22

UIL Code: 501.03-00

Person to contact:

Name:

ID number:

Telephone:

Fax:

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Dear :

**Why we are sending you this letter**

This is a 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), effective . Your determination letter dated , is revoked.

Our adverse determination as to your exempt status was made for the following reasons: You have failed to establish that you are operated exclusively for exempt purposes within the meaning of IRC Section 501(c)(3), and that no part of your net earnings inure to the benefit of private shareholders or individuals due to you granting as a way of retaining employees instead of granting based on need and/or merit.

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).

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

**What you must do if you disagree with this determination**

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

**How to file your action for declaratory judgment**

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.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. 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 20439

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.

**Letter 6337 (12-2020)**  
Catalog Number 74808E

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).

**Information about the IRS Taxpayer Advocate Service**

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. However, you may be eligible for free help from the Taxpayer Advocate Service (TAS) if you can't resolve your tax problem with the IRS, or you believe an IRS procedure just isn't working as it should. TAS is an independent organization within the IRS that helps taxpayers and protects taxpayer rights. Contact your local Taxpayer Advocate Office at:

Or call TAS at 877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to [taxpayeradvocate.irs.gov](http://taxpayeradvocate.irs.gov). Do not send your federal court pleading to the TAS address listed above. Use the applicable federal court address provided earlier in the letter. Contacting TAS does not extend the time to file an action for declaratory judgment.

**Where you can find more information**

Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

Find tax forms or publications by visiting [www.irs.gov/forms](http://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676).

If you have questions, you can call the person shown at the top of this letter.

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

Keep the original letter for your records.

Sincerely,



Sean E. O'Reilly

Director, Exempt Organizations Examinations

**Enclosures:**

Publication 1  
Publication 594  
Publication 892



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

**Date:**  
January 20, 2021  
**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:**  
February 23, 2021

**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,

*Richard W. Elder* , for

Sean E. O'Reilly  
Director, Exempt Organizations  
Examinations

Enclosures:  
Form 886-A  
Form 6018  
Form 4621-A  
Publication 892  
Publication 3498

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

**ISSUE**

Whether \_\_\_\_\_ continues to qualify for exemption under IRC § 501(c)(3)?

**FACTS**

\_\_\_\_\_ was granted exemption on \_\_\_\_\_ as a public charity under Section 501(c)(3) of the Internal Revenue Code and a 509(a)(2) foundation status.

Per a review of the organization's articles of incorporation, the \_\_\_\_\_ was organized exclusively for charitable, religious, educational and scientific purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code, or the corresponding section of any future federal tax code.

The organization's \_\_\_\_\_ application introduced a description of their activities that read as follows: The corporation has been organized to provide \_\_\_\_\_ and educational opportunities to eligible individuals as determined by the Board of Directors. It is the intent of the corporation to make \_\_\_\_\_ available to employees of, and \_\_\_\_\_ at, \_\_\_\_\_, an not-for-profit corporation, at the sole discretion of the Board of Directors, without discrimination as to race, religion preferences or ethnic origin, as well as to any other individuals, deemed deserving, at the sole discretion of the Board of Directors. In addition, the organization answered "Yes" on the Form \_\_\_\_\_ to "Do you have a close connection with any organization?" If "Yes", explain. According to the explanation on the Form \_\_\_\_\_, the \_\_\_\_\_ will work closely with the \_\_\_\_\_ in organizing and running \_\_\_\_\_ tournaments, the proceeds of which will be used for \_\_\_\_\_ for employees and \_\_\_\_\_ of the \_\_\_\_\_

The organization conducts an annual \_\_\_\_\_ tournament to raise funds. The \_\_\_\_\_ outing is held at the \_\_\_\_\_, a 501(c)(7) exempt organization, which is a related organization of the \_\_\_\_\_ . The 501(c)(7) - \_\_\_\_\_ organization involves the 501(c)(3) organization - \_\_\_\_\_ for the fund raising \_\_\_\_\_ tournament event held at their facility at market price, it does not provide any discounts or special arrangements to the 501(c)(3). The charges on the invoice for the \_\_\_\_\_ tournament include dinner, use of the facility and \_\_\_\_\_ rentals with a total invoice price of \$ \_\_\_\_\_

During the \_\_\_\_\_ tournament the organization sells raffle tickets, holds auctions and acquires sponsors for the event in order to raise additional funds. The entire fundraising event is conducted by volunteers with the primary purpose of raising funds to later award \_\_\_\_\_ to qualified individuals or other \_\_\_\_\_, as declared on the organization's Form \_\_\_\_\_. However, even though the event was conducted entirely by volunteers, the organization had fundraising expenses that were high relative to total expenses.

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

For the year ending on \_\_\_\_\_, -the year under examination-  
 \_\_\_\_\_ made a \$ \_\_\_\_\_ contribution to the \_\_\_\_\_, a 501(c)(3)  
 organization. In addition, that same year, the organization granted \_\_\_\_\_ to employees of its  
 related organization - \_\_\_\_\_ - with \_\_\_\_\_ payouts totaling \$ \_\_\_\_\_. All  
 \_\_\_\_\_ were paid directly to the university on behalf of the student.

Per the information received from the organization's treasurer on \_\_\_\_\_, the  
 program is offered for educational purposes only, the funds are strictly used to cover tuition and books.  
 The organization has an eligibility and selection process in place in order to determine which  
 applicants are eligible for the \_\_\_\_\_. The eligibility and selection process are as follows: the  
 applicant must be an employee of the related organization - \_\_\_\_\_, a 501(c)(7) -  
 and must have been an employee of the \_\_\_\_\_ for at least \_\_\_\_\_ year prior to  
 applying. The applicant should also have a \_\_\_\_\_ on the prior school semester, work a certain  
 number of hours (the number of hours necessary depends on the class of worker) and the applicant  
 must reapply for each semester. The application is initially submitted to the employee's manager at the  
 \_\_\_\_\_ (the 501(c)(7) related organization) for review, the manager rates it and  
 then forwards it to the \_\_\_\_\_ board for additional review.  
 Every board member on the \_\_\_\_\_ reviews the  
 applications on their own. Next, the board meets to discuss the applications and to make a final  
 determination on who will be granted the \_\_\_\_\_ and how much each employee will be granted.  
 The amount granted to each scholar depends on the amount of time the applicant has been working  
 for the 501(c)(7) organization.

The mission statement on the organization's website states, "the \_\_\_\_\_ was brought  
 about in memory of \_\_\_\_\_ with the goal of funding the \_\_\_\_\_  
 \_\_\_\_\_, which awards \_\_\_\_\_ to deserving \_\_\_\_\_ and \_\_\_\_\_ employees. The  
 \_\_\_\_\_ also provides the \_\_\_\_\_ a generous contribution to  
 the \_\_\_\_\_ for deserving \_\_\_\_\_." The organization's mission statement  
 was also included in a thank you letter addressed to \_\_\_\_\_ members thanking them for supporting the  
 \_\_\_\_\_. The letter outlined the foundation's mission statement and eligibility  
 requirements, as follows:

The mission of the \_\_\_\_\_:

1. Provide \_\_\_\_\_ opportunities to eligible individuals.
2. Make \_\_\_\_\_ available to employees of, and \_\_\_\_\_ at,
3. Pay \_\_\_\_\_ funds directly to the applicable educational institutions, intending to cover  
 the costs of \_\_\_\_\_ and related expenses.

**Eligibility For**

1. \_\_\_\_\_ entering their \_\_\_\_\_, \_\_\_\_\_, or \_\_\_\_\_ of \_\_\_\_\_, \_\_\_\_\_ or \_\_\_\_\_
2. Have a cumulative \_\_\_\_\_, or \_\_\_\_\_ (on a \_\_\_\_\_) \_\_\_\_\_ or higher for the \_\_\_\_\_

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

- immediate preceding school year:
3. Must have served a minimum of ( ) years with a commendable work performance;
  4. Must have involvement in school activities and/or outside community activities.
  5. cannot be awarded to the same person more than times (as of );
  6. cannot be awarded to a relative of a member of

The foundation's committee meeting minutes discussed wording changes on the application documents, such as, stressing that the applicant will be responsible for ensuring that all necessary documents are collected and provided to their manager by the submission deadline, the need for applicants to list total years working at and each position held. The committee also discussed the number of hours needed in order to qualify for the . The current qualification hour requirements are: for workers and for over years, with in the current application year. The committee minutes also provided information regarding the awards; details are outlined below.

#### Awards

- a. **Application Discussion** - applications were received. were first time applicants and were from current
  - i. Of these , applicants had unsatisfactory work performances with the in with a "No " recommendations from the manager, and was not eligible because he was still in high school (the requirement being " or entering their , , or year).
  - ii. The committee discussed awarding \$ per year for the remainder of their schooling, subject to continuing to work at the each year and subject to the criteria to continue receiving support each year. will need to apply initially for the
  - iii. The committee discussed differentiating between seasonal and full-time applicants. It was agreed, by consensus, to award a full-time employee the base award of a seasonal employee and to add years-of-service additions to award. The goal will be to use \$ for the base award and adjust the base each year as needed, depending on the amount in the account.
- b. **Awards** - For overall award level considerations, the committee applied the formerly approved criteria (base amount, plus for service years, minus less-than-commendable manager rating). candidate did not qualify due to still being in high school and will be encouraged to reapply next year. candidates received no award due to receiving no recommendation from their manager and for low work hours. current were awarded the base amount. The remaining were rewarded with a base amount, and increases based on service years.
- c. **Applicants Awards** – On a unanimous vote, the committee recommended the awards using \$ as the base, and adding \$ per year of service (except for ), totaling a max of \$

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

Based on the review of the application packets obtained from the \_\_\_\_\_, the organization received a total of \_\_\_\_\_ applications for the year ending on \_\_\_\_\_; \_\_\_\_\_ were approved and \_\_\_\_\_ were denied. The organization granted \_\_\_\_\_ to employees of the \_\_\_\_\_ even when some of the specified requirements were not met by the applicant. \_\_\_\_\_ out of the \_\_\_\_\_ applicants did not meet the \_\_\_\_\_ requirement; however, they were still granted the \_\_\_\_\_. There was \_\_\_\_\_ employee who did not meet the \_\_\_\_\_ requirement or the \_\_\_\_\_ requirement and who was not completely rated by the manager and was, nevertheless, granted the \_\_\_\_\_. Even though these students did not meet \_\_\_\_\_ or more of the requirements, their department manager provided written input on their application as to why they should be considered for the \_\_\_\_\_, which was mainly focused on their work performance and the amount of years the employee has worked for the \_\_\_\_\_. Below is a chart with relevant information regarding each applicant.

Applicant	Years of service at	Reason for	amount
Applicant		Based on the evaluation form prepared by Applicant manager/Department Head, _____ was rated a _____ - on the work performance scale and was referred for the _____ because _____ has been with _____ ( _____ ) for _____ years and has done a superb job as a server. _____ is an excellent team worker and the members truly enjoy _____ hospitable attitude. Applicant _____ cares for the success of the and its members. _____ is genuine and a great example of a stellar _____ employee.	\$
Applicant		Based on the evaluation form prepared by Applicant manager/Department Head, _____ was rated a _____ - on the work performance scale and qualifies as a candidate because _____ extremely responsible/accountable. A strong leader and finishes tasks well. _____ ran some of the and _____ with great energy and offered great instruction and, therefore, highly recommended _____ for the _____	\$
Applicant		Based on the evaluation form prepared by _____ manager/Department Head, _____ was amazing, one of their top _____. Members often requested _____ and _____ was confident in _____ abilities to handle the toughest groups. _____ is very smart, efficient and _____ was "VERY" dedicated to _____ and the members. Applicant _____ was rated a _____ - on the work performance scale.	\$
Applicant	Years of	Reason for	

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

	service at	amount
Applicant		Based on the evaluation prepared by manager/Department Head, Applicant is a leader. consistently takes the initiative on and in daily tasks. has a positive attitude on the - the young kids look up to , and it's a pleasure having him. Applicant was rated a - on the work performance scale.
Applicant		Based on the evaluation prepared by manager/Department Head, has worked for over years. has hosted, worked in the and has recently been promoted to server. is kind, hospitable, hard-working and very dedicated to 's extremely dependable and reliable to always put forth % effort in any task assigned to . The members truly enjoy . Manager is very proud of Applicant and abilities to transition into a strong at . Manager is also aware of Applicant outside hobbies and interests, that include and and ended the evaluation by stating that is the epitome of a staff member that deserves consideration for a from the organization. Applicant was rated a - on the work performance scale.
Applicant		Based on the evaluation submitted by manager/department head, Applicant has been with for over years. has demonstrated leadership, patience and acceptance with all the changes that occurred in . Applicant has been commended for ability to stay positive and remain constantly professional with members and staff even though some of the changes affected on a personal level. manager went on to highly recommend Applicant as a recipient of the because of continued dedication to the . Everything that has been asked of Applicant has been received with ambitious attitude and manager is confident that will excel in profession due to demeanor. Applicant was rated a - on the work performance scale.

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

Applicant	Years of service at	Reason for	amount
Applicant		Based on the evaluation submitted by manager/department head, Applicant was referred for the because has been great help the last years at is a leader on and off the good work ethic coupled with engaging personality with the kids make a great asset to the at Applicant was rated a - on the work performance scale.	\$
Applicant		Based on the evaluation submitted by manager/department head, Applicant is commendable for the because was an exemplary team member and was the team leader. never needed to be asked twice, often taking the initiative to get things done in advance. is a hard worker, in school too. a previous recipient that has proven to make something out of the opportunity. Applicant was rated a - on the work performance scale.	\$
Applicant		Based on the evaluation submitted by manager/department head, Applicant has been a long-time and employee of loyalty and commitment go beyond commendable. made an important impact on the program. All experience has landed him an internship in chosen field. The only challenge for Applicant on application is that was only able to The difficulty in Applicant application is that remained as committed as could and landed an internship for future. The manager ended evaluation by writing ". Applicant was rated a - on the work performance scale.	\$
Applicant		Based on the evaluation submitted by manager/department head, Applicant has been loyal to the for over years. has been a wonderful team member at and a leader that can be relied on. made a big impact on the and this season. also throughout the season. Applicant is a perfect candidate for this Applicant was rated a - on the work performance scale.	\$
Applicant	Years of	Reason for	

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

	service at	amount
Applicant		<p>Based on the evaluation submitted by manager/department head, Applicant was, once again, their all-around truly dedicated entire summer to is a great, very positive and driven, when leaned on, Applicant responded every time. deserves full consideration for the . The award would really help with the financial burden college expenses bring. Applicant was rated a - on the work performance scale.</p> <p>\$</p>
Applicant		<p>Applicant met the employment longevity requirement but did not meet the or worked requirements. Based on the evaluation submitted by manager/department head, Applicant has at for many years. is an attending is a great kid that the members enjoy having in the group. had an internship this year that took him away from the . were limited to tournaments and weekends. The manager answered yes, to the "Do you believe the candidate should receive a " question on the performance form but included a note that read " Applicant did not receive a rating on the work performance scale.</p> <p>\$</p>
Applicant		<p>Applicant met the and employment longevity requirements; however, did not meet the requirement. Based on the evaluation prepared by manager/department head, history with the club appeals itself. is well liked and a requested regularly. is an at . While an award from would be helpful, struggled to get the minimum number of had an internship; weekend and tournament were - effort was there, but this will have to be decided by the committee. Applicant was rated a - on the work performance scale. application was denied by board because did not meet the requirement.</p> <p>\$</p>

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

Applicant	Years of service at	Reason for	amount
Applicant		Applicant met the and employment longevity requirements but did not meet the number of requirement. Based on the evaluation prepared by manager/department head, Applicant is a wonderful young is doing well in school and seems to be driven to succeed. Regarding the award, Applicant would not qualify on this year's numbers. Applicant was rated a - on the work performance scale. The application was ultimately denied by board because did not meet the requirement.	\$
Applicant		Applicant met the and employment longevity requirements but did not meet the number of requirement. Based on the evaluation prepared by manager/department head, Applicant is a rock star. The rating that received is only regarding the number of , required to qualify for the . While has been dedicated to over the years, was busy with internship this year. was worked less than . If it's a based on commitment over years, Applicant is a good candidate. Based on , Applicant does not qualify. Applicant was rated a - on the work performance scale. Applicant was later denied by board because did not meet the requirement.	\$
Applicant		Based on the evaluation prepared by manager/department head, Applicant has been on the bag staff several years. is a hard worker. often opens the operation, then , then closes the room. is very dedicated and very deserving of the award. father was an , achieved careers success) so much that do not qualify for the ). This would be a big help to Applicant and family. Applicant was rated a - on the work performance scale. Applicant was referred by manager, however, application was denied because was still in high school. did not meet the requirement to be in or entering their , or year.	\$

\*The evaluation form used by the

is submitted to the

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

by the applicant's manager/department head as part of the application packet to rate the applicant's work performance. The employee can be rated on a scale from , with being the highest rating. and

On , Revenue Agent held a closing conference with the organization's treasurer. During the closing conference the agent discussed the following topics:

- The recipients are pre-selected by the manager of the employees
- The pool of applicants is not large enough
- The organization is significantly reducing the pool of applicants by enforcing their own set of requirements (e.g. the length of time the employee is required to work for the related organization, the minimum amount of hours/ worked requirement and a commendable work performance)
- are not being granted based on need or merit
- The organization has the intention of retaining the employees of the related organization by granting them , to which the treasurer responded: "Well, isn't that a good thing?"
- There is substantial private benefit

**LAW:**

Section 501 (c)(3) states that an entity must be organized and operated exclusively for exempt purposes, including charitable, scientific and educational purposes to be recognized as exempt from federal income tax.

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 § 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.

Section 1.501(c)(3)-1(d)(1)(ii) provides that an organization must establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Treasury Regulations 1.501(c)(3)-1(d)(1)(ii) provides that an IRC 501(c)(3) organization must serve "a public rather than a private interest." To meet the requirement that it serves a public purpose, an organization must establish that it is not organized or operated for the benefit of private interests.

Rev. Rul. 66-103, 1966-1 C.B. 134, states that a nonprofit organization providing awards and grants, including scholarships and fellowship grants, to needy individuals to enable them to continue their work in the creative arts, as well as to continue their education and studies, with no monetary benefit

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

to the donor organization, is entitled to exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

**Rev. Rul. 64-274, 1964-2 C.B. 141**, settled that a corporation is organized and operated on a nonprofit basis. It provides worthy and needy students with free housing facilities and with funds for the purchase of books and instructional supplies or equipment on a gift, or loan basis, without interest. Held, the corporation is exempt from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

**Rev. Rul. 56-403, 1956-2 CB 307**, states that the awarding of scholarships by a foundation solely to undergraduate members of a designated fraternity will not preclude it from exemption from Federal income tax under section 501 (c) (3) of the Internal Revenue Code of 1954 as an educational organization.

**Rev. Rul. 69-545, 1969-2 C.B. 117**, states that the promotion of health, like the relief of poverty and the advancement of education and religion, is one of the purposes in the general law of charity that is deemed beneficial to the community as a whole even though the class of beneficiaries eligible to receive a direct benefit from its activities does not include all members of the community, provided that the class of beneficiaries is not so small that its relief is not of benefit to the community.

**Rev. Rul. 69-257, 1969-1 C.B. 151**, held that an organization providing scholarships to recipients selected from a broad class of applicants on the basis of scholastic standing, qualified for exemption under section 501(c)(3) of the Code because it was engaged in the charitable activity of advancing education.

**Rev. Rul. 67-367, 1967-2 C.B. 188**, specifies that a nonprofit organization whose sole activity is the operation of a 'scholarship' plan for making payments to pre-selected, specifically named individuals does not qualify for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

**Local Union 712, I. B. E. W. Scholarship Trust Fund v. Commissioner, T.C. Memo 1983-76** - The court held that the scholarship fund, which was established pursuant to an agreement between a chapter of the national electrical contractors association (the association) and the local union of electrical workers (the union), did not qualify under 501(c)(3) because it did not operate exclusively for exempt purposes and served private interests. The scholarship fund was organized pursuant to a collective bargaining agreement between the union and the association for the purpose of awarding scholarships to the children of union employees. The scholarship fund's sole source of support was from contributions made by the association's members and the annual collective bargaining agreement between the association and the union. The court found that the scholarship fund was a required item in the collective bargaining agreement. The court also found that the sole activity of the organization was the provision of grants that were compensatory in nature to the members of the union.

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

**Miss Georgia Scholarship Fund, Inc. v. Commissioner, 72 T.C. 267 (1979)** - The petitioner was set up to provide a fund for the purpose of giving scholarships to contestants in the Miss Georgia Pageant. The participants were required as a condition for qualifying for scholarships to enter into a contract which would obligate them in the event they were selected to participate in the Miss America Pageant to abide by the rules and regulations of the pageants, including participation in public appearances and the like, under the sponsorship of the Miss Georgia Pageant. The court held the only activity engaged in by the petitioner was the awarding of so-called scholarships to participants in the Miss Georgia Pageant. Such scholarships were awarded in consideration of certain contractual obligations assumed by the participants. Thus, the scholarships did not qualify as a scholarship grant under Section 117. Since this was the only activity of the petitioner, the petitioner did not qualify as an exempt organization under Section 501(c)(3).

**Redlands Surgical Services v. Commissioner, 113 T.C. 47 (1999)** - The court made it clear that the proscription against private benefit encompasses not only inurement where there are benefits conferred on insiders having a personal and private interest in the organization, but also benefits conferred on unrelated or disinterested persons.

### TAXPAYER'S POSITION

During the closing conference, when the Revenue Agent addressed the concern that the organization is granting \_\_\_\_\_ as a way of retaining employees, the treasurer did not deny that they are and, instead, confirmed that they do grant \_\_\_\_\_ to retain employees by responding: "Well, isn't that a good thing?" The agent replied by informing \_\_\_\_\_ that a 501(c)(3) organization should grant \_\_\_\_\_ based on need or merit and not to retain employees. Besides the taxpayer's statement recorded above, the taxpayer did not provide a concrete position and decided to provide a position after reviewing the proposed revocation report.

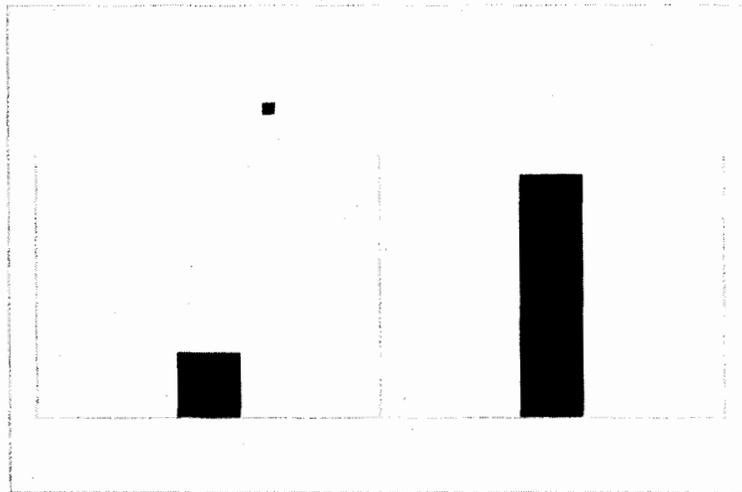
### GOVERNMENT'S POSITION

In determining whether you continue to meet the requirements of section 501(c)(3) of the code, we considered if you exclusively further charitable and educational purposes for the benefit of the general public, or if you substantially benefit the private interest of a narrow group of individuals and the \_\_\_\_\_, which is exempt under section 501(c)(7).

Like the situation described in *Miss Georgia Scholarship Fund, Inc. v. Commissioner*, your organization was set up mainly to provide scholarships to employees of your related organization, \_\_\_\_\_. The scholarship recipients are required, as a condition for the qualifying scholarships, to be employees of the \_\_\_\_\_. Such scholarships are awarded in consideration of certain employment obligations assumed by the participants. Providing scholarships to the employees of the \_\_\_\_\_ is the main purpose of your organization. As

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

demonstrated on the graph below, most of the scholarship contributions were made to employees of the \_\_\_\_\_ and only a small portion was contributed to the \_\_\_\_\_, a 501(c)(3) organization.



Unlike Rev. Rul. 69-257, your organization did not provide scholarships to recipients selected from a broad class of applicants on the basis of scholastic standing. Instead, your organization limited the scholarships to the employees of the \_\_\_\_\_, which were not granted on the basis of scholastic standing but rather on the basis of job performance.

Your situation is similar to the one found in Rev. Rul. 67-367 considering that your primary activity is the operation of a 'scholarship' plan for making payments to pre-selected, specifically named individuals. Your organization is pre-selecting applicants given that the applications are first screened and evaluated by the applicant's department manager at the \_\_\_\_\_ and are later forwarded to the \_\_\_\_\_ for further review and approval.

You are dissimilar to the situation described in Rev. Rul. 56-403. The revenue ruling stipulated that scholarships were open to members of all chapters of a designated fraternity who were in their senior year at any college or university and were based on scholarship, character, and service to the institution. By having the awards open to students at a national level, the benefit to a specific local chapter or individual in control of such a program was sufficiently minimized. Your organization differs from this because your scholarships are available only to local employees of the \_\_\_\_\_

Hence, your scholarships are not being granted on the basis of need, as in Rev. Rul. 66-103 or merit, as in Rev. Rul. 66-103 as required under Section 501(c)(3) of the code but, rather, on the basis of the applicant's job performance for the \_\_\_\_\_

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

**CONCLUSION**

Based on the reasons above, the \_\_\_\_\_ awarded by the \_\_\_\_\_ are compensatory in nature and provide substantial private benefit to the \_\_\_\_\_ and its members. Therefore, we have concluded that you no longer qualify for exemption under IRC Section 501(c)(3). As a result, it is proposed that your exempt status under Section 501(c)(3) be revoked. The organization has been granted relief under Section 7805(b) of the code; therefore, the exempt status will be revoked beginning on the date of issuance of the revocation letter.

Subject to the revocation being upheld, you will be liable to file Form \_\_\_\_\_ from the date the revocation letter is received.

**ALTERNATIVE ISSUE**

No alternative issue/s were found. In the event that the organization continues to qualify for exemption under IRC § 501(c)(3), the organization is not liable for any alternative issues since there was no Unrelated Business Taxable Income or any other taxable items discovered during the examination.