



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

Date: February 27, 2023

Taxpayer ID number (last 4 digits):

Form:

Tax periods ended:

Person to contact:

Release Number: 202321013

Release Date: 5/26/2023

UIL Code: 501.03-00

Last day to file petition with United States  
Tax Court:

**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 not demonstrated that you are both organized and operated exclusively for charitable, educational, or other exempt purposes within the meaning of IRC Section 501(c)(3). You were inactive and did not engage in any substantial activity that accomplished one or more exempt purposes under IRC Section 501(c)(3).

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 **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 can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. You can download a fillable petition or complaint form and get information about filing at each respective court's website listed below or by contacting the Office of the Clerk of the Court at one of the addresses below. Be sure to include a copy of this letter and any attachments and the applicable filing fee with the petition or complaint.

You can eFile your completed U.S. Tax Court petition by following the instructions and user guides available on the Tax Court website at [ustaxcourt.gov/dawson.html](http://ustaxcourt.gov/dawson.html). You will need to register for a DAWSON account to do so. You may also file your petition at the address below:

**United States Tax Court**  
400 Second Street, NW  
Washington, DC 20217  
[ustaxcourt.gov](http://ustaxcourt.gov)

The websites of the U.S. Court of Federal Claims and the U.S. District Court for the District of Columbia contain instructions about how to file your completed complaint electronically. You may also file your complaint at one of the addresses below:

**US Court of Federal Claims**  
717 Madison Place, NW  
Washington, DC 20439  
[uscfc.uscourts.gov](http://uscfc.uscourts.gov)

**US District Court for the District of Columbia**  
333 Constitution Avenue, NW  
Washington, DC 20001  
[dcd.uscourts.gov](http://dcd.uscourts.gov)

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.

#### **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 [IRS.gov/forms](http://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.

You may fax your documents to the fax number shown above, using either a fax machine or online fax service. Protect yourself when sending digital data by understanding the fax service's privacy and security policies.

Keep the original letter for your records.

Sincerely,

Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892

cc:



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

**Date:** 8/18/2022

**Taxpayer ID number:**

**Form:**

**Tax periods ended:**

**Person to contact:**

ID number:

Telephone:

Fax:

**Manager's contact information:**

ID number:

Telephone:

**Response due date:**

**CERTIFIED MAIL – Return Receipt Requested**

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

**Why you're receiving this letter**

**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.

**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.

**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,

for Lynn A. Brinkley  
Acting Director, Exempt Organizations Examinations

**Enclosures:**

Form 886-A, Form 6018

Publication 892, Publication 3498

Form <b>886-A</b> (May 2017)	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

**ISSUES**

Whether (the Organization) qualifies for exemption from federal income tax under Internal Revenue Code (IRC) Section (Sec.) 501(c)(3).

**FACTS**

**Formation**

The Organization was incorporated as a nonprofit corporation on in and listed and as the initial directors.

**Application for Recognition of Exemption**

On the Organization submitted a Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, which was postmarked and received by the Cincinnati Service Center on

Under Part IV, "Narrative Description of Your Activities," in the attachment to the Form 1023, the Organization provided the following:

*Our stated purposes are as follows:*

- 1) *Provide underprivileged youth the opportunity to participate in sports activities;*
- 2) *Provide sports participation for youth in a healthy, fun and positive environment;*
- 3) *Support young people in discovering and building their self-confidence and self-esteem through sports participation; and*
- 4) *Develop programs to educate young people, and communities, about the positive effects and benefits of youth participation in sports activities.*

The narrative continued to explain that the main activity used by the Organization to fulfill its purpose was through establishing and running a , as a " . It further states that, "[E]ach age group is closely bracketed to allow fun, fair and competitive play. The program provides young players a fun and exciting opportunity to engage in non-contact continuous action, while learning lessons in teamwork."

**Exemption**

On the Organization received recognition of exemption under IRC Sec. 501(c)(3) as a public charity, effective

Subsequently, the Organization was auto revoked as of , presumably because it failed to file the required for the tax years ended and .

The Organization requested reinstatement on and, apparently, filed the delinquent . The Service reinstated the Organization's tax-exempt status under IRC Sec. 501(c)(3) as a public charity on , retroactive to the date of revocation,

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**Activities**

The Organization started \_\_\_\_\_ in \_\_\_\_\_ after the \_\_\_\_\_ and \_\_\_\_\_, who had \_\_\_\_\_ in the for-profit \_\_\_\_\_, noticed that some potential players' families couldn't afford to pay to play. Initially, the founders approached the for-profit \_\_\_\_\_ owners to address this issue, but none of the owners were willing to do anything to help these underprivileged and underserved families. As such, the founders decided to set up the Organization to run a \_\_\_\_\_ that would allow everyone to play. The Organization allowed each team one free player and, subsequently, provided a lot of additional player scholarships, including providing equipment for players that couldn't afford it.

Due to \_\_\_\_\_, the league was shut down in \_\_\_\_\_ after completing the winter and spring seasons. During that time, the Organization was approached by a for-profit \_\_\_\_\_ organization proposing that the Organization sell its \_\_\_\_\_ operation to the for-profit, which it did later in \_\_\_\_\_. Since the founders had already moved to \_\_\_\_\_ in \_\_\_\_\_ and the \_\_\_\_\_ operations were curtailed by \_\_\_\_\_, they decided to switch the focus of the Organization to reach out to \_\_\_\_\_ to bring awareness to the \_\_\_\_\_. They lost a \_\_\_\_\_ to \_\_\_\_\_ in \_\_\_\_\_ and his \_\_\_\_\_ wanted to do something to help bring awareness to this issue. Since the \_\_\_\_\_ operation was being sold, and since the Organization was already established to help underprivileged and underserved youth, this seemed like a good pivot and was something the Organization could get behind wholeheartedly. However, again due to the restrictions and lockdowns brought about by \_\_\_\_\_, the Organization was unable to fulfill this tax-exempt purpose.

**Financials Per**

For the Year Ended

Revenue:

All Other Contributions, Gifts, Grants, & Similar Amounts	\$
Program Service Revenue:	
Player Registration Fees	\$
Game Admissions	\$
Refunds	(\$ )
Net Income (Loss) from Sale of Inventory	(\$ )
Total Revenue	<u>\$</u>

Expenses:

Grants and Other Assistance to Domestic Individuals	\$
Compensation of Current Officers, Directors, etc.	\$
Other Salaries and Wages	\$
Legal	\$
Other Fees for Service	\$
Advertising and Promotion	\$
Office Expenses	\$
Occupancy	\$
Travel	\$
Depreciation, Depletion, and Amortization	\$

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Insurance	\$
Stadium Fees	\$
Player Awards	\$
Website	\$
Meals & Entertainment	\$
All Other Expenses	\$
<b>Total Expenses</b>	<u>\$</u>

<b>Assets:</b>	<u>BOY</u>	<u>EOY</u>
Cash – non-interest-bearing	\$	\$
Inventories for Sale or Use	\$	\$
Land, Buildings, Equip. (less Accumulated Depreciation)	\$	\$
<b>Total Assets</b>	<u>\$</u>	<u>\$</u>

For the Year Ended

<b>Revenue:</b>	
Program Service Revenue:	
Player Registration Fees	\$
Gross Amount from Sale of Assets	\$
Net Income (Loss) from Sale of Inventory	\$
<b>Total Revenue</b>	<u>\$</u>

<b>Expenses:</b>	
Grants and Other Assistance to Domestic Individuals	\$
Compensation of Current Officers, Directors, etc.	\$
Accounting	\$
Travel	\$
Game Expenses	\$
Admin Expenses	\$
<b>Total Expenses</b>	<u>\$</u>

<b>Assets:</b>	<u>BOY</u>	<u>EOY</u>
Cash – non-interest-bearing	\$	\$
Inventories for Sale or Use	\$	\$
Land, Buildings, Equip. (less Accumulated Depreciation)	\$	\$
Other Assets	\$	\$
<b>Total Assets</b>	<u>\$</u>	<u>\$</u>

**Examination**

On \_\_\_\_\_, the Revenue Agent (Examiner) sent an initial contact letter and Information Document Request (IDR) package, which included Publication 1, Notice 609, and Publication 3498-A, to inform the Organization of the examination.

The Examiner subsequently held the Initial Interview with the Organization's \_\_\_\_\_, and the Organization's \_\_\_\_\_, via a conference call on \_\_\_\_\_.



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During the Initial Interview provided the information regarding the Organization's activities as stated previously herein. He also confirmed that the Organization was unable to continue its operations to provide awareness and assistance to underprivileged and underserved youths and subject to due to the . Since the majority of the programs the Organization intended to implement were targeted toward meeting with and communicating with the affected youth in face-to-face encounters, the effectively shut down the Organization's ability to move forward with its newly focused tax-exempt purpose.

Further examination of the Organization's books and records also revealed the Organization basically ceased all operations when the were implemented.

## **LAW**

### **Internal Revenue Code (IRC)**

IRC Sec. 501(c)(3) exempts from income tax entities organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the 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 (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

### **Treasury Regulations (Treas. Reg.)**

Treas. Reg. Sec. 1.501(c)(3)-1(a)(1) states 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.

Treas. Reg. Sec. 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 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.

## **GOVERNMENT'S POSITION**

It is the Government's position that the Organization does not qualify for exemption under IRC Sec. 501(c)(3).

Under Treas. Reg. Sec. 1.501(c)(3)-1(a), 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.

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Under Treas. Reg. Sec. 1.501(c)(3)-1(c), 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 Sec. 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.

Here, the organization and operation of the \_\_\_\_\_ by the Organization met the requirements for tax exemption as a charitable organization under IRC Sec. 501(c)(3) and the Regulations thereunder. By providing player's and their families with scholarships and equipment they couldn't otherwise afford, the Organization fulfilled its stated charitable purpose of providing "underprivileged youth the opportunity to participate in sports activities." Obviously, when the Organization sold \_\_\_\_\_ operation it ceased operating for that tax-exempt purpose.

However, changing the Organization's tax-exempt purpose to one of helping and aiding underprivileged and underserved youth \_\_\_\_\_ still met the operational requirements for tax exemption as a charitable organization under IRC Sec. 501(c)(3) and the Regulations thereunder. Unfortunately, though, when the Organization was unable to continue its operations due to the \_\_\_\_\_, it no longer met those operational requirements. The Organization is no longer engaged primarily in activities that accomplished one or more of the exempt purposes specified in IRC Sec. 501(c)(3) as required under Treas. Reg. Sec. 1.501(c)(3)-1(c).

As such, the Organization failed to meet the requirements for tax exemption under IRC Sec. 501(c)(3) and the Regulations thereunder.

**TAXPAYER'S POSITION**

Throughout the examination, the Examiner discussed his findings with the Organization's \_\_\_\_\_, and the Organization's \_\_\_\_\_, explaining that the Government will be recommending revocation of the Organization's exemption under IRC Sec. 501(c)(3). \_\_\_\_\_ indicated that since the Organization had ceased operations due to \_\_\_\_\_ the Organization will accept the proposed revocation.

The Organization is being solicited for its position at this time.

**CONCLUSION**

The Organization does not qualify for exemption from federal income tax as it failed to substantiate that it is operated exclusively for one or more exempt purposes, resulting in its failure to comply with the requirements of IRC Sec. 501(c)(3) and Treas. Reg. Sec. 1.501(c)(3)-1(c).

It is the Government's position that the Organization failed to operate exclusively to accomplish one or more of such exempt purposes specified in IRC Sec. 501(c)(3). Because the Organization was not operated exclusively for the exempt purpose under IRC Sec. 501(c)(3), its federal tax-exempt status under such section should be revoked effective \_\_\_\_\_. The Organization is liable for \_\_\_\_\_, for the year ended \_\_\_\_\_ and all years thereafter.