



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

Date:
12/04/2023
Employer ID number:

Tax years:
All
Person to contact:

Release Number: 202409019
Release Date: 3/1/2024
UIL Code: 501.03-22

Dear :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

Because you don't qualify as a tax-exempt organization under IRC Section 501(c)(3), donors generally can't deduct contributions to you under IRC Section 170.

We may notify the appropriate state officials of our determination, as required by IRC Section 6104(c), by sending them a copy of this final letter along with the proposed determination letter.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:

Letter 437

Redacted Letter 4034

Redacted Letter 4038



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

Date:
September 25, 2023
Employer ID number:

Person to contact:

Name:
ID number:
Telephone:
Fax:

Legend:

B - state
C = date
D = pageant 1
E = pageant 2
F = number 1
G = number 2
H = number 3
J = number 4
K - number 5

UIL:

501.03-22

Dear _____ :

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(3). This letter explains the reasons for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under section 501(c)(3) of the Code? No, for the reasons stated below.

Facts

You were incorporated under the laws of B on C. Your original Articles of Incorporation indicated your purpose was the preparation for contestants to compete in the D and formulate rules for fair and safe competition among contestants. You later amended your Articles to indicate you are formed for exclusive charitable and educational purposes as well as to promote western culture and way of life by educating the public on ranching, farming, the agricultural industry and the sport of rodeo.

You provided revised Bylaws which, in part, indicated your primary purpose to be promoting the western culture and way of life by educating the general public on topics including ranching and farming heritage, the agriculture industry, and the sport of rodeo.

Your activities, along with pageants, include rodeos, clinics and schools throughout the state of B and across the United States. Your goal is to create community interest and attract sponsors to in turn benefit the scholarship fund for furthering the education of women leaders. You are funded through membership fees; clinic participant fees; pageant fees and event attendee fees.

In response to our request for information on your activities you stated every summer you conduct a D, where each contestant competes in public speaking, horsemanship skills, an ability to present oneself for public appearance, and a test on their knowledge of the sport of rodeo. Scholarships are made available to the winner of the contest for higher education purposes; those eligible to win are those that succeed in winning the categories available. The participants are young women ranging from F to G years old and split into three levels of competition. There are three title holders chosen from the accumulation of scores they earn. Within each group each contestant will compete for points against their fellow contestants for the opportunity to win different categories. Once each titleholder has secured their title, they have the opportunity to travel all over B teaching young children and adults alike about the sport of rodeo, agriculture and our western way of life.

You submitted further information including flyers on the pageant and related events, its schedule, sponsorships, locations, etc., from past years. You also provided the D contract that is implemented between you and the pageant winner which included II contracted stipulations placed upon the individual.

Winners are expected to make scheduled appearances, including grade school visits, speaking engagements, rodeos, motivational clinics and promotional sponsor events. The winner also represents B while participating in the annual E. The winner's financial responsibilities (J listed) were premised with the statement of understanding that financial culpability may lie solely on her at any time and that the "job expectations will remain the same". Also listed in the contract were declared conditions (K listed) precedent to the agreement; if any shall fail, the agreement may at the sole and exclusive opinion of you/your board be declared null and void and all prizes must be returned.

Law

Section 501(c)(3) of the Code and section 1.501(c)(3)-1(a) of the regulations sets forth two main tests to qualify for exempt status. An organization must be organized and operated exclusively for purposes described in section 501(c)(3) of the Code.

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

Treas. Reg. Section 1.501(c)(3)-1(b)(4) provides that an organization is not organized exclusively for one or more exempt purposes unless its assets are dedicated to an exempt purpose.

Treas. Reg. Section 1.501(c)(3)-1(c)(1) provides that an organization will be regarded as operated exclusively for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in IRC Section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Treas. Reg. Section 1.501(c)(3)-1(d)(2) defines the term charitable as including the relief of the poor and distressed or of the underprivileged, and the promotion of social welfare by organizations designed to lessen neighborhood tensions, to eliminate prejudice and discrimination, or to combat community deterioration. The term “charitable” also includes lessening of the burdens of government.

Revenue Ruling 66-103, 1966-1 C.B. 1034, states an organization which makes unconditional grants to individuals who are in need of funds to initiate, develop, or complete creative or scholarly works, or to conduct necessary research for such projects, may qualify for exemption under IRC Section 501(c)(3), where the purpose of such grants is to assist the recipient to carry on his creative efforts.

Miss Georgia Scholarship Fund, Inc. v. Commissioner, 72 T.C. 267 (1979), the Tax Court held that a separate fund created by the Miss Georgia Pageant (Pageant), which was recognized exempt under IRC Section 501(c)(4) solely to award scholarships to the Pageant’s contestants, did not qualify under Section 501(c)(3) because the scholarships were awarded in consideration of contractual obligations. The Tax Court concluded that scholarships were compensation for signing the Pageant Contract and for performing services under it. These awards were not IRC Section 117 scholarships and the Fund was not operated exclusively for Section 501(c)(3) purposes.

Application of law

IRC Section 501(c)(3) sets forth two main tests for qualification for exempt status. As stated in Treas. Reg. Section 1.501(c)(3)-1(a)(1), an organization must be both organized and operated exclusively for purposes described in Section 501(c)(3). You amended the purpose clause in your Articles of Incorporation, but your dissolution clause states you will give any remaining funds to a similar non-profit. Per Treas. Reg. Section 1.501(c)(3)-1(b)(4), assets on dissolution must be dedicated to an exempt purpose under Section 501(c)(3). As your Articles do not expressly dedicate assets on dissolution to another Section 501(c)(3) entity you fail the organizational test.

You do not meet the operational test under IRC Section 501(c)(3) because you did not establish that you operate exclusively for charitable or educational purposes as required under Treas. Reg. Section 1.501(c)(3)-1(c)(1). Your scholarship program is not based on financial need or academic achievement. Instead, the scholarship is more of a prize or award for the winner of B and requires actions on the part of the recipient to maintain or retain funds. Contracts provided and required to be signed by the winning contestant indicate winners must engage in public appearances and speaking engagements for both you and your sponsors. Although some of your activities are educational in nature and provide historical and regional significance, the scholarship program is more than insubstantial in nature. As provided in Treas. Reg. Section 1.501(c)(3)-1(d)(2), you have not established that your operations accomplish exclusively charitable purposes.

You require pageant winners to abide by contractual obligation in return for scholarship funds and specifically refer to the winner’s ‘job expectations’. Violation of the contract could result in termination of their contract and subsequently scholarship funds. Scholarships provided for merit or scholarly achievement can be an exempt activity, as seen in Revenue Ruling 66-103. The grants awarded in this case were unconditional. In this instance, scholarships are more compensation for competing, winning, signing your contract and performing required services rather than an unconditional, ‘no strings attached’ award. This results in these scholarships being compensatory in nature to the contestants for performing certain services for the pageant and/or pageant sponsors. As seen in Miss Georgia v. Commissioner, scholarships that are granted as a form of compensation are not exclusively educational or charitable. Rather, they serve a substantial non-exempt purpose of

compensating the recipients for past, present, or future services. By paying compensatory awards rather than true scholarships you do not operate exclusively for one or more of the exempt purposes specified in IRC Section 501(c)(3).

Conclusion

Based on our analysis of the facts presented we have determined you do not qualify for tax exemption as an organization described in IRC Section 501(c)(3). You fail both the organizational and operational tests and your scholarship program does not further exclusive charitable or educational purposes.

If you agree

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

If you don't agree

You have a right to protest if you don't agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, Power of Attorney and Declaration of Representative, with us if they haven't already done so. You can find more information about representation in Publication 947, Practice Before the IRS and Power of Attorney.

We'll review your protest statement and decide if you gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

Where to send your protest

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Mail Stop 6403
PO Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Mail Stop 6403
Cincinnati, OH 45202

You can also fax your protest and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that they received it.

You can get the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676). If you have questions, you can contact the person listed at the top of this letter.

Contacting the Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or if you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 877-777-4778.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements