



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

Date:
01/08/2025
Employer ID number:

Form you must file:
1120

Tax years:
All

Person to contact:

Release Number: 202514008
Release Date: 4/4/2025
UIL Code: 501.03-00, 501.33-00

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

Letter 4038 (Rev. 11-2021)
Catalog Number 47632S



Department of the Treasury
Internal Revenue Service
PO Box 2508
Cincinnati, OH 45201

Date: 10/31/2024

Employer ID number:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Legend:

B = Date

C = State

D = Items

E = Name

F = Name

G = Name

H = Name

J = Items

K = Items

m percent = Number

n percent = Number

UIL:

501.03-00

501.33-00

Dear :

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

Issues

Do you qualify for exemption under IRC Section 501(c)(3)? No, for the reasons stated below.

Facts

You submitted Form 1023-EZ, Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code.

You attest that you are a corporation formed on B, in the state of C. You attest that you have the necessary organizing document, that your organizing document limits your purposes to one or more exempt purposes within the meaning of IRC Section 501(c)(3), that your organizing document does not expressly empower you to engage in activities, other than an insubstantial part, that are not in furtherance of one or more exempt purposes, and that your organizing document contains the dissolution provision required under IRC Section 501(c)(3).

You attest that you are organized and operated exclusively to further scientific purposes. You attest that you have not conducted and will not conduct prohibited activities under IRC Section 501(c)(3). Specifically, you attest you will:

- Refrain from supporting or opposing candidates in political campaigns in any way
- Ensure that your net earnings do not inure in whole or in part to the benefit of private shareholders or individuals
- Not further non-exempt purposes (such as purposes that benefit private interests) more than insubstantially
- Not be organized or operated for the primary purpose of conducting a trade or business that is not related to your exempt purpose(s)
- Not devote more than an insubstantial part of your activities attempting to influence legislation or, if you made a Section 501(h) election, not normally make expenditures in excess of expenditure limitations outlined in Section 501(h)
- Not provide commercial-type insurance as a substantial part of your activities

Form 1023-EZ states that your most significant activity is developing a blockchain standard for representing D as non-fungible tokens (NFTs).

During review of your Form 1023-EZ, detailed information was requested supplemental to the above attestations. You stated that you have and will be working on developing and evangelizing an international standard for representing D digitally using distributed ledger technology. E is an organization that develops and publishes international standards. You are working to turn your standard into an E approved standard. Your board of directors is composed of individuals from the F sector and from academia. The board meets once per month, and the standards development committee meets on an ad hoc basis.

The implementation of the standards is expected to be complete within a year. You spend more than half of your time on the standard development, another m percent on establishing the coalition and implementation, and n percent on general foundation business. You project that two years from your application date, you will focus exclusively on developing and maintaining the adoption of the standard.

Your Articles of Incorporation were filed about two weeks prior to the date you provided in your application as your formation date. Contrary to the attestations you made on Form 1023-EZ, your articles state that you will conduct business as an industry alliance created as an open-source blockchain protocol to improve the circular economy in the reverse supply chain of K. Your articles are silent about whether you are formed to further any purposes under IRC Section 501(c)(3).

Information within your bylaws obtained from your website states that your purpose is to build and maintain an open-source blockchain protocol that enables recycling industries, manufacturers, and individuals to track and document K from creation through their end-of-life.

Your website states you are an industry coalition of stakeholders in the F industry and are working to create a public utility allowing any enterprise or supply chain to digitally represent J as NFTs. Your website also describes two related organizations: G and H. You are doing business as G – therefore, G and “you” are synonymous. Your website describes you as “the nonprofit.” Your name and H’s name are very similar.

Further, your website states that you act as the steward for an open protocol standard describing the data models, dealing with real-world issues, developing the initial software, and forming H to run the decentralized software application. H limits their number of members within the F industry. Your open blockchain protocol will allow any organization or ecosystem to establish their own NFT implementation for their own category of K. Your website calls on interested parties to become a member of H because membership in H includes governance, operational, and economic rights.

Your website also states that your vision is to enable certain supply chain participants to safeguard ownership of K, track all K from creation through their end-of-life, control with whom owners share data about their K, and facilitate recycling and the circular economy.

Your website explains that your work is to build and maintain an open-source blockchain protocol for the K supply chain, provide proof of work completed, parts and ownership to reduce counterfeits, provide J data sharing capabilities across the supply chain, and enable increased data sharing with participants, including government agencies, manufacturers, retailers, customers, and recyclers.

Your proposed value will come from creating an industry ecosystem token economy model to facilitate economic exchange across the supply chain, validate ownership and prevent counterfeiting, verify functionality and quality, record events, pre-pay and ensure payment for services, and provide a platform for escrow. Additionally, you will verify K are sold, donated or recycled, provide the ability to facilitate new industry prosecution solutions, and create new information based products/services by sharing data across the supply chain.

You describe the stakeholders as the original manufacturers, asset and data management companies, blockchain companies, marketplaces, and resellers and recyclers.

Your website states that your costs are for the creation of the blockchain, hosting and maintenance, outreach and education, full-time and part-time employees and contractors, and operational expenses, such as rent. Upon our request, you submitted three years of proposed financial data. At the top of the page of the third year of the "Profit & Loss" statements you submitted was your name plus "LLC" at the top of the page. The budgets you provided were very minimal and did not include any employees or contractors. Your projected revenue is from grants and donations. Your largest anticipated expense is for site operations and hosting. Your other expenses include things such as dues and memberships, office supplies, development, and marketing.

Law

IRC Section 501(c)(3) provides for the recognition of exemption of organizations that are organized and operated exclusively for religious, charitable, educational, or other purposes as specified in the statute. No part of the net earnings may inure to the benefit of any private shareholder or individual.

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)(1)(i) provides that an organization will be regarded as organized exclusively for one or more exempt purposes only if its articles of organization limit the purposes of such

organization to one or more exempt purposes and do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.

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

Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not organized or operated exclusively for exempt purposes unless it serves a public rather than a private interest. To meet this requirement, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests.

Treas. Reg. Section 1.501(c)(3)-1(d)(5) provides that a scientific organization must be organized and operated in the public interest. Therefore, the term scientific, as used in IRC Section 501(c)(3), includes the carrying on of scientific research in the public interest. Research when taken alone is a word with various meanings; it is not synonymous with scientific; and the nature of particular research depends upon the purpose which it serves. For research to be scientific, within the meaning of Section 501(c)(3), it must be carried on in furtherance of a scientific purpose. Scientific research does not include activities of a type ordinarily carried on as an incident to commercial or industrial operations, as, for example, the ordinary testing or inspection of materials or products or the designing or construction of equipment, buildings, etc.

Revenue Ruling 69-632, 1969-2 C.B. 120, describes a nonprofit organization composed of members of a particular industry to develop new and improved uses for existing products of the industry. It was held not to be exempt under IRC Section 501(c)(3) because any public benefit was secondary to the private benefit derived by the organization's members.

Rev. Rul. 71-504, 1971-2 C.B. 231, describes an organization exempt under IRC Section 501(c)(6) that primarily directed its activities to the promotion of the common business purposes of its members. The organization could not be reclassified as an organization described in Section 501(c)(3) because its activities were directed primarily at the promotion of the medical profession and thus furthered the common business purpose of its members.

Rev. Rul. 74-553, 1974-2 C.B. 168, describes an organization whose principal activity is directed to establishing and maintaining standards for the quality and costs of medical services. Its primary objective is to maintain the professional standards, prestige, and independence of the organized medical profession and thereby furthers the common business interest of the organization's members. It did not qualify for exemption under IRC Section 501(c)(3), in part, because more than an insubstantial amount of its activities furthered the private interests of its members.

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279 (1945), the Supreme Court held that the presence of a single non-exempt purpose, if substantial in nature, will destroy a claim for exemption regardless of the number or importance of truly exempt purposes.

In Quality Auditing Company, Inc. v Commissioner, 114 T.C. 498 (2000), the Tax Court found that the development and administration of a quality certification program, at the request of and for the structural steel industry, had a focus on aiding industry participants, with any benefit to the general public being merely secondary. The private interests served were found to be substantial in comparison to the benefit reaped by the general public. Furthering private interests constitutes a nonexempt purpose. Petitioner did not establish that it was operated exclusively for exempt charitable purposes and was found to be not entitled to exemption from taxation as a charitable organization described in Section 501(c)(3).

Application of law

IRC Section 501(c)(3) and Treas. Reg. Section 1.501(c)(3)-1(a)(1) set forth two main tests to qualify for exempt status. An organization must be both organized and operated exclusively for purposes described in Section 501(c)(3). You have failed to meet both requirements, as explained below.

Your Articles of Incorporation do not limit your purposes to exclusively IRC Section 501(c)(3) purposes. As a result, you do not meet the requirements of Treas. Reg. Section 1.501(c)(3)-1(b)(1)(i) and fail the organizational test.

You do not meet the operational test because you are not operated exclusively for one or more exempt purposes as required by Treas. Reg. Section 1.501(c)(3)-1(c)(1). You are formed to create an open standard in conjunction with, and for the substantial benefit of, a related for-profit entity, H, who will build and maintain an open-source blockchain protocol that enables recycling industries, manufacturers, and individuals to track and document J from creation through their end-of-life. Creating a standard for the benefit of your members, H, and anyone else invested in the F industry, is not exclusively in furtherance of a purpose described under IRC Section 501(c)(3).

An organization may meet the requirements of IRC Section 501(c)(3) only if it serves a public, rather than a private, interest. Your activity of developing an F industry standard provides a substantial private benefit to H and its members, as well as anyone else interested in the F industry. Your website calls on interested parties to become a member of H for the governance, operational, and economic rights. Serving a substantial private interest precludes exemption as organization described in Section 501(c)(3) under Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii).

You do not qualify for tax-exemption as a scientific research organization for your activities related to the developing a standard relating to the F industry. To qualify as an IRC Section 501(c)(3) scientific research organization as described in Treas. Reg. Section 1.501(c)(3)-1(d)(5), you must (1) engage in scientific research; (2) the scientific research must not include activities that are incident to commercial or industrial operations; and (3) the scientific research must be undertaken in the public's interest. Your activities more than incidentally benefit H, whose members are economically invested in the F industry, and not the general public.

You are similar to the organization described in Rev. Rul. 69-632 because your activities are designed to create a new standard for the benefit of your members and the members of H, as well as other businesses or individuals that have an interest in the F industry. The goal for creating the new standard isn't for creating a public benefit — it's to create an economic benefit for the participants in the F industry to help them track K.

Like the organization described in Rev. Rul. 71-504, your activities further the business interests of your members in a substantial way. Additionally, you are very similar to the organization described in Rev. Rul. 74-553, which had a principal activity directed toward establishing and maintaining standards for the quality and

costs of a particular service industry. It did not qualify for exemption because it substantially furthered the common business interests of its members. According to the court in Better Business Bureau of Washington, D.C., Inc., this single non-exempt purpose, because it is substantial in nature, precludes you from qualifying for exemption.

You are similar to the organization described in Quality Auditing Company, Inc. Your activities only secondarily benefit the general public, while primarily benefiting industry participants for a private interest, which prevents you from qualifying for exemption under Section 501(c)(3).

Conclusion

You do not qualify for tax exemption under IRC Section 501(c)(3) because you are neither organized nor operated exclusively for purposes described in Section 501(c)(3). Your Articles of Incorporation do not limit your purposes to those described in Section 501(c)(3). You fail the operational test because you operate for the substantial non-exempt purpose of benefitting private persons and for-profit organizations invested in the F industry. Therefore, you do not qualify for exemption under Section 501(c)(3).

If you agree

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

If you don't agree

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

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

For an officer, director, trustee, or other official who is authorized to sign for the organization:
Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

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

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