



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

Date:  
09/30/2024  
Taxpayer ID number (last 4 digits):

Form:

Tax periods ended:

Release Number: 202516009  
Release Date: 4/18/2025  
UIL Code: 501.03-00

Person to contact:  
Name:  
ID number:  
Telephone:  
Fax:  
Last day to file petition with United States  
Tax Court: 12/30/2024

**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 operated exclusively for an exempt purpose as described in section 501(c)(3). Treasury Regulation section 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not operated exclusively for exempt purposes unless it serves a public rather than a private interest. We hereby determined that you operated for the benefit of private interests of a private individual. You have failed to show that no part of your net earnings inure to the benefit of a private individual.

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](https://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 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](https://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](https://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](https://uscfc.uscourts.gov)

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

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).

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 if 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. Visit [TaxpayerAdvocate.IRS.gov/contact-us](https://TaxpayerAdvocate.IRS.gov/contact-us) or call 877-777-4778 (TTY/TDD 800-829-4059) to find the location and phone number of your local advocate. Learn more about TAS and your rights under the Taxpayer Bill of Rights at [TaxpayerAdvocate.IRS.gov](https://TaxpayerAdvocate.IRS.gov). Do not send your Tax Court petition to TAS. Use the Tax Court address provided earlier in the letter. Contacting TAS does not extend the time to file a petition.

**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](https://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,



Lynn A. Brinkley  
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:**  
05/10/2024  
**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:**  
June 7, 2024

**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**

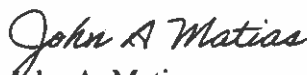
The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance,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

**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,



John A. Matias

Group Manager

for Lynn A. Brinkley

Director, Exempt Organizations Examinations

Enclosures:  
Form 886-A  
Form 6018

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 # (last 4 digits)	Year/Period ended

**ISSUE**

Whether \_\_\_\_\_ operated exclusively for one or more exempt purposes described under IRC Section 501(c)(3).

**FACTS**

Background of

In the past, \_\_\_\_\_ engaged in a number of programs, including its Locate, Recovery, and Rescue Program ("LRR Program"). The LRR Program arose out of \_\_\_\_\_ mandate to assist vulnerable populations, including runaways at risk of falling victim to child sex trafficking. Beginning in late \_\_\_\_\_ and continuing through \_\_\_\_\_ transitioned the LRR program to a newly formed corporation

Per Article of Incorporation filed with the State of \_\_\_\_\_, \_\_\_\_\_ was incorporated on \_\_\_\_\_ for the purpose of rescuing and recovering missing and exploited children. Per Article 3, Section 3.1 of its bylaws, \_\_\_\_\_ is an association of volunteers who assist child victims of exploitation.

On \_\_\_\_\_ filed a Form 1023-EZ, *Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, seeking tax-exempt status under IRC Section 501(c)(3). On \_\_\_\_\_ the IRS recognized \_\_\_\_\_ as a 501(c)(3) public charity. \_\_\_\_\_ public charity status remained effective to the present date.

According to \_\_\_\_\_ own statistic, \_\_\_\_\_ recovered \_\_\_\_\_ children in \_\_\_\_\_ were recoveries from rehabilitation center such as \_\_\_\_\_, where \_\_\_\_\_ was paid to provide services.

Per the contract with \_\_\_\_\_ provided volunteers to shadow the residents when they left \_\_\_\_\_ on the weekend. In an interview with \_\_\_\_\_ executive director stated that the shadowing prevented pimps from luring girls into prostitution. In return, \_\_\_\_\_ paid \$ \_\_\_\_\_ for each volunteer provided. then paid \$ \_\_\_\_\_ to \$ \_\_\_\_\_ to each volunteer for their work. Exhibit 1.

\_\_\_\_\_ terminated its contract with \_\_\_\_\_. Per \_\_\_\_\_ own statistics, the recoveries declined to \_\_\_\_\_ and \_\_\_\_\_, respectively. \_\_\_\_\_ did not post statistics for \_\_\_\_\_ and beyond. Exhibit 2.

In a news article titled \_\_\_\_\_ board member \_\_\_\_\_ acknowledged that \_\_\_\_\_ does not rescue children. Rather, \_\_\_\_\_ only assists in their recoveries. The only person who physically rescues a child is law enforcement.

\_\_\_\_\_ acknowledged in \_\_\_\_\_ in an interview with the \_\_\_\_\_ that the majority of those rescues were young people who had wandered away from the group home for at-risk teenagers such as \_\_\_\_\_

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Some volunteers had since disassociated themselves from [redacted] They claimed in interviews that [redacted] and [redacted] were more interested in publicity to raise funds than rescuing children. Volunteers questioned [redacted] method of counting recoveries, where they claimed make the recoveries look better than they actually were. See news article titled [redacted]

also lost funding from [redacted]

**Board Members and Officers**

Below is the current board members and officers. Some are involved in both [redacted] and [redacted]

1. [redacted] Director and President
2. [redacted] Director and Secretary (son of [redacted])
3. [redacted] Director and Treasurer
4. [redacted] Director (was not listed on Form 1023-EZ)

**About**

[redacted] signed the Form 1023-EZ as [redacted] president. He has been serving as [redacted] director and president since its inception. [redacted] has access to [redacted] bank accounts.

[redacted] was also the owner of a for-profit business called [redacted]. He's also a partner of [redacted] IRS records show that [redacted] several contractors who received a Form 1099 from [redacted] also performed work for [redacted]. They were the volunteers who [redacted] paid for their work.

**Form 990, Financial Records and Other Information Returns**

The Form 990 was prepared by outside accounting firms. [redacted] reports the following financial information on its [redacted] Form 990.

Cash		
Land, buildings and equipment	_____	_____
Total assets		
Accounts payable and accrued expenses		
Net assets or fund balance	_____	_____
Total liabilities and net assets/fund balance		
Income		
Federal campaign		
Investment	_____	_____
Total income		
Expenses		

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Officers' compensation		
Management		
Office expenses		
Travel		
Insurance		
Fundraising	_____	_____
Total expenses	_____	_____
Net income	_____	_____

primary sources of revenue came from public donation. also received fees from  
for services provided.

In response to Information Document Request (IDR) #1, instead of provided an  
Excel file named . The file contained the following tabs:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

The lab showed charges for airfares, hotels, car rental as well as regular purchases  
of gas, groceries, meals, restaurant dining, wine, cigars, as well as purchases from

In the letter dated , representative of For  
provided the following explanation regarding books and records.



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 # (last 4 digits)	Year/Period ended

reported the following on the tax years

Form 990:

Total revenue  
Total expenses  
Total assets  
Total liabilities  
Net assets or fund balances

It's unknown how the return preparer came up with the figures above. did not provide a balance sheet, profit & loss statement, general ledger or workpapers used in the preparation of the Form 990.

was the owner of the following bank and investment accounts:

- 1.
- 2.
- 3.
- 4.

Per signature cards provided by  
Exhibit 3.

is the sole signer of the two

In purchased a recreational vehicle for use as a mobile command center and in community events. Per representative did not keep a mileage log. All maintenance is done by . Some maintenance was done by a mobile mechanic due to safety issues.

Transfers of Funds to

1. \$ Online Transfer to on

showed the above transfer to Exhibit 4. In IDR #2, the examining agent requested to explain how used the \$ for activities and provided records to substantiate such uses.

In the letter dated representative stated the \$ was used for activities. The representative did not provide any documentation to substantiate the use of

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the \$ . The representative stated will supplement this response when and if it is able to do so. did not supplement this response.

2. Transfers to Checking Account Ending in accounts showed the following transfers.

Date	Payee	Description	Amount
------	-------	-------------	--------

In the letter dated representative stated that is the owner of the checking account

Form <b>886-A</b> (May 2017)	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
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trial balance shows negative \$            adjustment to the \$            leaving a balance of \$            which            reported as compensation to            on the Form 990.

See below for transfers to account            during the tax years            to            :

Date	Payee	From Account	Amount
------	-------	--------------	--------

Date	Payee	From Account	Amount
------	-------	--------------	--------

Date	Payee	Description	Amount
------	-------	-------------	--------

Form <b>886-A</b> (May 2017)	Department of the Treasury – Internal Revenue Service <b>Explanations of Items</b>	Schedule number or exhibit
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Sum of A: \$

3. Transfers to

The statements show the transfer below.

Date	Payee	Amount
------	-------	--------

In response to IDR #4, stated account belonged to . The funds were used for reimbursement of expenses related to recovery of missing children for the operations team. referred to Attachment. See below for description of the Attachment.

<u>Payments to</u>	<u>Personal Credit Cards</u>
paid the amounts below to	personal credit cards:

Charges to credit card

Previously, provided an Excel file listing charges and payments made in . See tab of Excel file titled

In response to IDR #2, provided statements for account (Document 5.1 and 5.2) below.

Closing date	Payments	New charges
--------------	----------	-------------

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Name of taxpayer	Tax identification # (last 4 digits)	Year/Period ended

The statements showed \_\_\_\_\_ was the cardholder. The statements showed most charges were for food, drinks, and restaurant dining. There were charges for gas, cigar, and AAA membership dues as well. The charges and payments posted to the account \_\_\_\_\_ did not reflect those on the \_\_\_\_\_ tab and those paid from \_\_\_\_\_ accounts. There was a charge for \$ \_\_\_\_\_ for repair of the RV.

In response to IDR #2, \_\_\_\_\_ representative stated the charges were for operations, meetings, community events, instruction to groups including law enforcement, and fundraising events. \_\_\_\_\_ did not provide any documentation to support its claim but stated that it will supplement the responses if and when it's able to do so.

In response to another item on IDR #2, \_\_\_\_\_ provided the items below.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.

- The covered address listed on the \_\_\_\_\_ house. The month service charge was \$ \_\_\_\_\_, which \_\_\_\_\_ charged to the \_\_\_\_\_ card.
- Three businesses insured by the liability insurance policy were: (1) \_\_\_\_\_ (2) \_\_\_\_\_ (3) \_\_\_\_\_ The certificate did not show a premium amount.
- Regarding the gun for sale to volunteer members. The statement (provided by \_\_\_\_\_ for the closing date \_\_\_\_\_ showed: \_\_\_\_\_ spent \$ \_\_\_\_\_ to purchase guns for resale. At least one member repurchased guns from \_\_\_\_\_

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In IDR #3, the examining agent requested substantiation for charges and payments again. In response, only provided statements for account for the tax years (except for ), and .

The statements showed purchases of office supplies, airplane tickets, lodging, gas, beer, wine, foods, drinks, Turbo tax software, home security services (ADT), car repair from Chevrolet dealership, AAA membership dues, home improvement store, and others.

The statements also showed the following charges by the law firm that represented in the examination.

Date	Payee	Amount
------	-------	--------

There were no charges by prior to .

In the fax transmittal dated , referred the examining agent to Attachment below for its responses to request for substantiations for charges.

1. IRS Information Document Request #3 – Attachment 1
2. IRS Information Document Request #3 – Attachment 2

Attachments are two tables containing descriptions below. A portion of the tables are reproduced here.

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Name of taxpayer	Tax Identification # (last 4 digits)	Year/Period ended

also provided the following car rental and hotel receipts along with the Attachment:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.

also provided two printed links to YouTube videos and three printouts of pictures.

The two tables did not contain responses to IDR #4, Item #6, which requested substantiations for card payments made in the tax years

Charges to

In response to IDR #2, provided statements for credit card account for the following periods:

- 
- 
- 
- 

The statements showed was the cardholder. Most charges were for gasoline.

In response to IDR #3, provided statements for credit card account for the following periods:

- 
- 
- 
- 
- 
- 
- 
- 
- 
- 
- 
- 
- 
- 
-

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 # (last 4 digits)	Year/Period ended

- 
- 
- 
- 
- 
- 

The statements showed most charges were for gas. There were 5 charges related to the RV.

Dated  
Dated  
Dated  
Dated  
Dated

The RV repairs charged to \_\_\_\_\_ card by year are as follows:

Charges to \_\_\_\_\_ credit cards

\_\_\_\_\_ did not provide statements for the \_\_\_\_\_ credit cards. \_\_\_\_\_ also did not provide any records to substantiate the charges to these cards.

Intent to Compensate \_\_\_\_\_ for His Services

On the Form 990, Part VII-A Current Officers, Directors, Trustees and Key Employees, \_\_\_\_\_ was listed as Executive Director and was an individual trustee or director. The Form 990 reported the following compensation to

TY  
TY  
TY  
TY

The \$ \_\_\_\_\_ and \$ \_\_\_\_\_ reflected the transfers to checking account \_\_\_\_\_. Although reported the \$ \_\_\_\_\_ on the Form 990, it did not report the amount on a Form W-2 or 1099.

IRS records show \_\_\_\_\_ filed one Form 1099-NEC reporting \$ \_\_\_\_\_ paid to \_\_\_\_\_ for-profit business Private Investigative Research Company in \_\_\_\_\_. IRS records show \_\_\_\_\_ did not file a Form W-2 or 1099 for the tax years \_\_\_\_\_

In response to IDR #1, \_\_\_\_\_ provided board minutes dated \_\_\_\_\_ and \_\_\_\_\_ In the board minutes dated \_\_\_\_\_, \_\_\_\_\_ board of directors hired \_\_\_\_\_



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to serve as a consultant-advisor to the Board. agreed to pay \$ per month plus all expenses in lieu of per diem. The minutes did not specify the expenses.

In the board minutes dated

would provide private investigator management services, private investigator administrative services, coordination volunteers, facilitation of private investigator licensing, oversight of private investigator work, and coordination with parents and victims to ensure all services are being provided in alignment with mission and procedures. The minutes reiterated the \$ monthly salary but did not include paid expenses. The starting date for compensation was Exhibit 5.

**LAW**

IRC Section 501(c)(3) provides for exemption from income tax for corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or 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.) Section 1.501(c)(3)-1(a)(1) provides that, in order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational or the operational test, it is not exempt.

Treas. Reg. Section 1.501(c)(3)-1(c)(2) provides that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Treas. Reg. Section 1.501(a)-1(c) defines the words private shareholder or individual in section 501 as persons having a personal and private interest in the activities of the organization.

Treas. Reg. Section 1.501(c)(3)-1(f)(2)(i) provides that, regardless of whether a particular transaction is subject to excise taxes under section 4958, the substantive requirements for tax exemption under section 501(c)(3) still apply to an applicable tax-exempt organization described in section 501(c)(3) whose disqualified persons or organization managers are subject to excise taxes under section 4958. Accordingly, an organization will no longer meet the requirements for tax-exempt status under section 501(c)(3) if it fails to satisfy the requirements of paragraph (b), (c) or (d) of this section.

Treas. Reg. Section 1.501(c)(3)-1(f)(2)(ii) provides that, in determining whether to continue to recognize the tax-exempt status of an applicable tax-exempt organization (as defined in §§ 4958(e) and 53.4958-2) described in section 501(c)(3) that engages in one or more excess

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benefit transactions that violate the prohibition on inurement under section 501(c)(3), the Commissioner will consider all relevant facts and circumstances, including, but not limited to, the following:

- A. The size and scope of the organization's regular and ongoing activities that further exempt purposes before and after the excess benefit transaction(s) occurred;
- B. The size and scope of the excess benefit transaction(s) (collectively, if more than one) in relation to the size and scope of the organization's regular and ongoing activities that further exempt purposes;
- C. Whether the organization has been involved in multiple excess benefit transactions with one or more persons;
- D. Whether the organization has implemented safeguards that are reasonably calculated to prevent excess benefit transactions; and
- E. Whether the excess benefit transaction has been corrected (within the meaning of §4958(f)(6) and §53.4958-7), or the organization has made good faith efforts to seek correction from the disqualified person(s) who benefited from the excess benefit transaction.

All factors should be considered in combination with each other. Depending on the particular situation, greater or lesser weight may be assigned to some factors than to others. The safeguard and correction factors will weigh more heavily in favor of continuing to recognize exemption where the organization discovers the excess benefit transactions and takes action before the IRS discovers the excess benefit transactions. Further, with respect to the correction factor, correction after excess benefit transactions are discovered by the IRS, by itself, is never a sufficient basis for continuing exemption. Regs. §1.501(c)(3)-1(f)(2)(ii).

Founding Church of Scientology v. U.S., 412 F.2d 1197 (Ct. Cl. 1969) involved channeling of an organization's funds to those in control of the organization. In that case, a wide variety of devices were employed, including fees, commissions, excessive rental payments, loans and excessive salaries, to divert the organization's funds to its founder, L. Ron Hubbard, and his immediate family. The principle of inurement was neatly summarized when the Court stated, "what emerges from these facts is the inference that the Hubbard family was entitled to make ready personal use of the corporate earnings." See also John Marshall Law School v. U.S., 81-2 U.S.T.C. 9514 (Ct. Cl. 1981), in which the Court found that the Commissioner acted properly in revoking exemption under IRC 501(c)(3) on the grounds of inurement to the controlling officers and their families. The inurement included, but was not limited to, payments to the families as follows: automobile, education and travel expenses, insurance policies, basketball and hockey tickets, membership in a private eating establishment, membership in a health spa, interest-free loans, home repairs, personal household furnishings and appliances, and golfing equipment. The Court concluded that "nothing we have found in the record dispels the substantial doubts the court entertains concerning the receipt of benefit by the Hubbards from plaintiff's net earnings. Since plaintiff has failed to meet its burden of proof, we hold therefore that a part of the corporate net earnings was a source of benefit to private individuals." *Supra*, at 1202.

Attempting after the fact to demonstrate that an undocumented transaction is a typical business arrangement is not likely to prevent a finding of inurement. Founding Church of Scientology v. United States, 412 F.2d 1197 (Ct. Cl. 1969), cert. den., 397 U.S. 1009 (1970).

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The taxpayers have the burden of proofs that they are entitled to deductions. See Hradesky v. Commission, 540 F.2d 821 (5th Cir. 1976), and Welch v. Helvering, 290 U.S. 111, 115 (1933).

**TAXPAYER'S POSITION**

Taxpayer's position is unknown

**GOVERNMENT'S POSITION**

IRC Section 501(c)(3) requires an organization to be both "organized" and "operated" exclusively for one or more IRC 501(c)(3) purposes. If the organization fails either the organizational test or the operational test, it isn't exempt. See Treas. Reg. Section 1.501(c)(3)-1(a)(1). The operational test applies to the organization's activities and how it furthers exempt purposes.

Treas. Reg. Section 1.501(c)(3)-1(a)(1) provides that an organization described in section 501(c)(3) 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.

An organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals. Treas. Reg. Section 1.501(c)(3)-1(c)(2). A private shareholder or individual in section 501 is persons having a personal and private interest in the activities of the organization.

was an insider with respect to

is an officer and director. He manages activities and received compensation (for himself and his business) for his services. had access to bank accounts and was the sole signer of these accounts. All these factors show that has personal and private interest in the activities of and was an insider with respect to

Transfers of funds to constituted inurement

The table below lists all transfers of funds to

**Transfer to**

claimed used the \$ for activities but did not provide any records to support that claim. Instead, the representative stated will supplement this response when and if it is able to do so. The transfer was a channeling of fund from to

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Transfers to checking ending

reported the \$ of \$ transfer in as compensation to on the Form 990. also reported the \$ of \$ transfer in on the Form 1099-NEC. Therefore, has indicated intent to treat the transfers in as compensation for services. The amount did not seem excessive. Therefore, the transfers in and did not constitute excess benefit.

With respect to the \$ and \$ transfers in neither reported the transfers on the Form 990 nor Form 1099. In addition, the board's approval of compensation discussed in the meetings dated and did not apply to the transfers in. The starting date for compensation was. Therefore, did not indicate intent to treat the \$ and \$ as compensation for services. The \$ and \$ constituted channeling of funds to

Transfers to checking ending

claimed used the \$ transferred to account for activities but did not provide any records to support that claim. Therefore, the \$ constituted channeling of funds to

It's concluded that the transfers of funds to constituted inurement.

Payments to personal credit cards constituted inurement

Charges to

was the cardholder of all three cards. The statements showed hundreds of charges. Some charges appeared business-related. Others such as food and drinks, beer, wine, cigar, car repair, tax software, home security services, gas, etc. were personal in nature. When taxpayers are mixing business and personal, they bear the burden of substantiating business from personal. In addition, the taxpayers bear the burden of proving entitlement to the deductions. See Welch v. Helvering.

In applying the principal above, bear the burden of proving the purchases were for activities.

In response to IDRs #2, and 3 provided two tables containing general descriptions of the events that claimed to have conducted in. The two tables appear to be created from recollection and after the fact. Some items contained more descriptions. Others simply contained "Travel" or "Operations". Without other collaborating evidence, which the examining agent requested in IDR #2, 3, and 4, and to which did not provide, it's not possible to connect the trips to activities.

The same analysis applies to the car rental and hotel receipts. They did not establish whether the trips were related to the business of. The trips could also be related to the business

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activities of Private Investigative Research Company and Strategic Ops Security & Investigative. Both entities also provided investigative services. Keep in mind that some of the volunteers were also employed by business Strategic Ops Security & Investigative.

Since owned the RV, the \$ repair incurred in was deemed business related.

The statement showed spent \$ to purchase guns for resale to volunteer members. At least one member repurchased the guns from Therefore, the \$ was business related.

Similarly, the \$ attorney fees paid to for audit representation were business related.

did not provide substantiation for credit card payments made in

Charges to

The statements showed was the cardholder. Most charges were gasoline. did not provide any substantiations for charges to the card. also did not provide a mileage log for the RV. As such, it's not possible to conclude the gas was for the RV. The charges related to repair of the RV were business related.

Charges to credit cards

did not provide statements for the credit cards.  
did not provide records to substantiate the charges.

have the burden of establishing that the credit card charges and payments were for the benefits of Welch v. Helvering, 290 U.S. 111, 115 (1933). Neither satisfied that burden. Except for the charges related to repair of the RV, guns, and attorney fees, the remaining charges were personal and constituted excess benefits.

The table below summarize all credit card charges where failed to establish a connection to activities:

The table below summarizes the amounts where failed to establish a business purpose:

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Transfers of funds  
Credit card payments

Whether the excess benefit transactions constituted inurement

In determining whether to continue to recognize the tax-exempt status of an applicable tax exempt organization that engages in one or more excess benefit transactions that violate the prohibition on inurement under IRC Section 501(c)(3), all relevant facts and circumstances, including, but not limited to, the following are taken into account:

- i. The size and scope of the organization's regular and ongoing activities that further exempt purposes before and after the excess benefit transaction(s) occurred

began operations in own recovering statistic suggested providing services to rehabilitation center accounted for a substantial portion of its operation. has since lost its contract with As a result, the recoveries dropped to did not post recoveries statistic for and beyond. Some volunteers have since cut tie with also lost fundings from

These factors suggested activity has decreased.

- ii. The size and scope of the excess benefit transaction or transactions (collectively, if more than one) in relation to the size and scope of the organization's regular and ongoing activities that further exempt purposes

Below is an analysis of the EBTs in comparison to total expenses.

Total expenses per return  
Excess benefit transactions  
Percentage

The excess benefit transactions were substantial.

- iii. Whether the organization has been involved in multiple excess benefit transactions with one or more persons

was a board member and president of He oversaw operation and had access to bank accounts. He used funds for his personal benefit as if the funds were his own. The excess benefit transactions included paying his personal credit cards where he failed to establish a business connection and withdrawing funds for his own use.

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- iv. Whether the organization has implemented safeguards that are reasonably calculated to prevent excess benefit transactions

is a director and officer As the sole signer of the accounts, he had sole control over the accounts. There does not appear to be any oversight over his activities. As a result, was able to engage in transactions that resulted in excess benefits to himself. The examining agent is not aware of any implemented safeguards.

- v. Whether the excess benefit transaction has been corrected, or the organization has made good faith efforts to seek correction from the disqualified person(s) who benefited from the excess benefit transaction.

No verifiable evidence that the excess benefit transactions were corrected.

**CONCLUSION**

was an insider with respect to He engaged in transactions with that resulted in excess benefits to him. The excess benefit transactions constituted inurement. As a result, failed to operate exclusive for one or more 501(c)(3) exempt purposes. tax-exempt status should be revoked effective is required to file a Form 1120 for all future years.