



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

Date:
09/23/2025
Employer ID number:

Form you must file:

Tax years:

Person to contact:

Release Number: 202551042
Release Date: 12/19/2025
UIL Code: 501.03-00, 501.03-05

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



**Department of the Treasury
Internal Revenue Service**

Date:
07/31/2025
Employer ID number:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Legend:

B = City
C = State
D = Date

UIL:
501.03-00
501.03-05

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 incorporated in C on D as a nonprofit corporation for charitable, educational, and scientific purposes within the meaning of IRC Section 501(c)(3). Your Articles of Incorporation (AOI) state your purpose is to promote the development of a responsible cannabis-related tourism industry, and advocate for sustainable innovations and social equity.

Your application stated you aim to accomplish your purpose by engaging in education, training-workforce development, and outreach partnerships. One of your goals, per your website, is to cultivate local partnerships that can grow cannabis-related economic development opportunities in B through education and training.

Your website further states that you will utilize a portion of local abandoned buildings to create a vertically integrated farming entity through seed-to sale operations to cultivate an economy around cannabis development (cannabis, food, and industrial hemp seed-to-sale). The cannabis business will be sustained year-round through the hydroponic techniques taught to your members. As a result, you would create a hub for cannabis-related networking and business development.

Law

IRC Section 501(c)(3) provides for the exemption from federal income tax of corporations organized and operated exclusively for charitable or educational purposes, provided no part of the net earnings inures to the benefit of any private shareholder or individual.

Treasury Regulation Section 1.501(a)-1 provides that the word private shareholder or individual in IRC Section 501 refers to persons having personal or private interest in the activities of the organization.

Treas. Reg. Section 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 exempt purposes. 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 is organized exclusively for one or more exempt purposes only if its articles of organization limit its purposes to one or more exempt purposes and do not expressly empower it to engage, otherwise than as an insubstantial part, in activities which in themselves are not in furtherance of one or more exempt purposes.

Treas. Reg. Section 1.501(c)(3)-1(b)(1)(iv) provides that in no case shall an organization be considered to be organized exclusively for one or more exempt purposes, if, by the terms of its articles, the purposes for which it is created are broader than the purposes specified in Section 501(c)(3) of the Code. The fact that the actual operations of such organization have been exclusively in furtherance of one or more exempt purposes shall not be sufficient to permit the organization to meet the organizational test.

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 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) states that an organization is not operated exclusively for one or more exempt purpose unless it serves a public rather than a private interest.

Treas. Reg. Section 1.501(c)(3)-1(d)(2) provides the term "charitable" is used in IRC Section 501(c)(3) in its generally accepted legal sense and includes relieving the poor and distressed or the underprivileged, combating community deterioration, lessening neighborhood tensions, and eliminating prejudice and discrimination.

Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i) provides that the term "educational," as used in IRC Section 501(c)(3), relates to the instruction or training of the individual for the purpose of improving or developing his/her capabilities or the instruction of the public on subjects useful to the individual and beneficial to the community.

Restatement (Second) of Trusts. Sections 368, 372 (1959); 4A Scott and Fratcher. The Law of Trusts, Section 368, 372 (4th ed. 1989). The promotion of health has long been recognized as a charitable purpose. However, a trust is invalid if its purpose is illegal. Restatement (Second) of Trusts, Section 377 (1959).

21 U.S.C. Section 802(16) defines marijuana as "all parts of the plant Cannabis Sativa L. whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin."

21 U.S.C. Section 812(c), Sch. I(c)(10) lists marijuana as a hallucinogenic substance and includes it on schedule I of the Schedules of Controlled Substances. A schedule I substance is a substance that (1) has a high potential for abuse; (2) has no currently accepted medical use in treatment in the United States; and (3) there is a lack of accepted safety for use of the drug under medical supervision.

21 U.S.C. Section 841(a), known as The Controlled Substances Act, states that it is illegal for anyone to knowingly or intentionally manufacture, distribute, or dispense, or possess with intent to manufacture, distribute, or dispense a controlled substance.

Revenue Ruling 75-384, 1975-2 C.B. 204, held that a nonprofit organization, whose purpose was to promote world peace, disarmament, and nonviolent direct action, did not qualify for exemption under IRC Sections 501(c)(3) or 501(c)(4). The organization's primary activity was to sponsor antiwar protest demonstrations in which demonstrators were urged to violate local ordinances and commit acts of civil disobedience. Citing the law of trusts, the ruling stated that all charitable organizations are subject to the requirement that their purposes cannot be illegal or contrary to public policy.

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

In Bob Jones University v. United States, 461 US. 574 (1983), the Supreme Court held that racially discriminatory education is contrary to public policy and the University therefore could not be viewed as providing public benefit within the charitable concept.

United States v. Oakland Cannabis Buyers' Cooperative, 532 US. 483, 490 (2001), reiterates that there is only one exception from the Act for cannabis: Government-approved research projects. "It is clear from the text of the Act that Congress has made a determination that marijuana has no medical benefits worthy of an exception."

In Mysteryboy, Inc. v. Commissioner, T.C. Memo 2010-13 (2010), the Tax Court held that the organization failed the operational test partly because the organization proposed to promote illegal activities.

Application of law

IRC Section 501(c)(3) and Treas. Reg. Section 1.501(c)(3)-1(a)(1) set forth two main tests for qualification of exempt status. An organization must be both organized and operated exclusively for purposes described in Section 501(c)(3). Furthermore, Treas. Reg. Section 1.501(c)(3)-1(c)(1) states that to be operated exclusively for one or more exempt purposes, an organization must engage primarily in activities that accomplish one or more exempt purposes specified in Section 501(c)(3).

Your AOI state your purpose is to promote the development of a responsible cannabis-related tourism industry, and advocate for sustainable innovations and social equity. Your AOI does not limit your purpose to one or

more exempt purposes, but expressly empowers you to engage substantially in activities which do not further exempt purposes. Furthermore, your purpose is broader than the purposes specified in IRC Section 501(c)(3). See Treas. Reg. Sections 1.501(c)(3)-1(b)(1)(i) and 1.501(c)(3)-1(b)(1)(iv).

You are seeking to perform charitable activities (as described in Treas. Reg. Section 1.501(c)(3)-1(d)(2) and Restatement (Second) of Trusts, Sections 368, 372 (1959); 4A Scott and Fratcher, The Law of Trusts, Section 368, 372 (4th ed. 1989)) and educational activities (as described in Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i)) by creating a vertically integrated farming entity through seed-to sale operations to cultivate an economy around cannabis development (cannabis, food, and industrial hemp seed-to-sale), including teaching vertical farming techniques and providing real estate to grow cannabis.

Your state of C has legalized the cannabis activities you aim to promote, however, federal law classifies cannabis as a Schedule I controlled substance under 21 U.S.C. Sections 802(16) and 812. Furthermore, federal law prohibits the manufacture, distribution, possession, or dispensing of a controlled substance under 21 U.S.C. Section 841(a). Congress has "made a determination that marijuana has no medical benefits worthy of an exception" to the general rule that the manufacture and distribution of cannabis is illegal. See Oakland Cannabis Buyers' Cooperative.

You are like the organizations described in Bob Jones University, Mysteryboy, Inc., and Rev. Rul. 75-384 that were denied exemption under IRC Section 501(c)(3) because these organizations furthered purposes illegal or contrary to public policy. Although, your state of C has legalized the cannabis activities you aim to promote, federal law classifies these activities as illegal and contrary to public policy.

Further, you operate for a substantial non-exempt purpose of providing private benefit to the cannabis industry and your members. You advocate for the local cannabis industry in the city of B to engage in business to grow and sell cannabis. The creation of networking hubs, combined with access to vertical farming facilities, would provide direct benefits to your members seeking to enter the cannabis industry (i.e., aiding in getting a license and providing real estate within the city B to develop cannabis through vertical farming methods.) These opportunities would disproportionately benefit those individuals rather than the public at large. See Treas. Reg. Sections 1.501(a)-1 and 1.501(c)(3)-1(d)(1)(ii).

You are like the organization described in Better Business Bureau of Washington, D.C., Inc. that was denied exemption under IRC Section 501(c)(3) because the organization had a substantial non-exempt purpose. Your substantial purposes of promoting illegal activities, that contravene federal law, and the serving of private interests are non-exempt purposes.

Conclusion

You fail the organizational test because your purpose, as stated in your AOI, is too broad and expressly empowers you to engage substantially in activities which do not further exempt purposes. Moreover, although you do have charitable and educational purposes, you fail the operational test because you have substantial non-exempt purposes of promoting federally illegal activities (cannabis production) and serving the private interests of your members. Therefore, you fail to qualify for exemption under IRC 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