



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

Release Number: 202552037
Release Date: 12/26/2025
UIL Code: 501.03-00, 501.33-00, 501.36-01

Date:
08/18/2025
Employer ID number:

Form you must file:

Tax years:
All

Person to contact:
Name:
ID number:
Telephone:

Dear [REDACTED]:

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**

Date:
07/01/2025
Employer ID number:

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

Legend:

B = Date
C = State
D = Range
x dollars = Dollar
y percent = Percent

UIL:
501.03-00
501.33-00
501.36-01

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 were incorporated 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 the 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 Section 501(c)(3).

You attest that you are organized and operated exclusively to further charitable 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

You state that you were formed to support local agriculture by operating a market that provides sales of goods from farms and local artisans. Your market facilitates the sale of homemade or food products by local vendors. You operate a seasonal market active D. You charge a fee of x dollars for the season plus an additional y percent of sales (only for non-produce vendors), based on other current farmers market fee structures.

You organize and assist with all market days and provide advertising for participating vendors. You state that all resources are allocated to the purpose of promoting the market and vendors in the agricultural fields while promoting healthy lifestyles.

You state you are different from a commercial market because all resources are used to promote your vendors and all operations are performed by volunteers. You also determine your fees based on how other farmers' markets price their fee structures while also keeping in mind affordability for local vendors.

Law

IRC Section 501(c)(3) provides for the recognition of exemption of organizations that are organized and operated exclusively for religious, charitable, 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 Regulations Section 1.501(c)(3)-1(a)(1) of the regulations provides that in order to be exempt under IRC Section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the exempt purposes specified in that section. If an organization fails to meet either the organizational test or the operational test, it does not qualify for exemption.

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 one or more exempt purposes unless it serves a public rather than a private interest. To meet the requirement of this subsection, the burden of proof is on the organization to show that it is not organized or operated for the benefit of private interests, such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Revenue Ruling 77-111, 1977-1 C.B. 144, in Situation 1, held that an organization formed to increase business patronage in a deteriorated area by providing information on the area's shopping opportunities, local transportation, and accommodations is not operated exclusively for charitable purposes and does not qualify for exemption under IRC Section 501(c)(3). The overall thrust is to promote business rather than to accomplish Section 501(c)(3) objectives exclusively.

In Rev. Rul. 2006-27, 2006-1 C.B. 915 (2006), Situation 2 describes an organization that provided down payment assistance to low-income home buyers in return of a payment from the home seller. To finance its down payment assistance activities, the organization relied on sellers and other related businesses that stood to benefit from the transactions it facilitated. In addition, in deciding whether to provide assistance to a low-income buyer, the organization's staff knew the identities of the seller and other interested parties and was able to take into account whether the seller or another interested party was willing to make a payment to it for its services. It was determined that down payment assistance was directly related to the payment received from the home seller and resulted in a direct benefit to the home seller as a critical part of the organization's operations. This organization was ultimately found to not meet the requirements of IRC Section 501(c)(3).

In Better Business Bureau of Washington D.C., Inc. v. United States, 326 U.S. 279 (1945), the Supreme Court stated that the presence of a single nonexempt purpose, if substantial in nature, will preclude exemption under IRC Section 501(c)(3), regardless of the number or importance of statutorily exempt purposes. Thus, the operational test standard prohibiting a substantial non-exempt purpose is broad enough to include inurement, private benefit, and operations that further nonprofit goals outside the scope of Section 501(c)(3).

In American Campaign Academy v. Commissioner, 92 T.C. 1053 (1989), the court held that organization formed to operate a school to train individuals was funded by the persons affiliated with a particular political party. Most of the organization's graduates worked in campaigns for the party's candidates. It was concluded that even though candidates and entities benefitted were not considered insiders to the organization, conferral of benefits on disinterested persons who are not members of a charitable class may cause an organization to indirectly serve a private interest within the meaning of Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii).

In Living Faith, Inc. v. Commissioner, 950 F. 2d 365 (7th Cir. 1991), the court of Appeals upheld a Tax Court decision, T.C. Memo. 1990-484, that an organization operating restaurants and health food stores in a manner consistent with the doctrines of the Seventh Day Adventist Church did not qualify under Section 501(c)(3). The court found substantial evidence to support a conclusion that the organization's activities furthered a substantial nonexempt purpose, including that the operations were presumptively commercial. The organization competed with restaurants and food stores, used profit-making pricing formulas consistent with the food industry, and incurred significant advertising costs.

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 do not meet the operational test under Section 501(c)(3) because you are not operating exclusively for charitable purposes as required under Treas. Reg. Section 1.501(c)(3)-1(c)(1). You operate to facilitate a farmers' market that provides a direct benefits to your vendors.

Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii) requires an organization show that it is not organized or operated for private interests. Although you may conduct some charitable and educational activities at the market, more than

an insubstantial part of your activities is in furtherance of the non-exempt purpose of being a profitable outlet for your vendors to increase their sales. Your activities provide a substantial private benefit to vendors. Therefore, you do not qualify for exemption under IRC Section 501(c)(3).

Like the organization described in Rev. Rul. 2006-27, Situation 2, you primarily finance your activities by charging your vendors a fee to sell their goods. Your vendors benefit from the transactions you facilitate. Your reliance on these fees for most of your funding indicate that the benefit to your vendors is a critical aspect of your operations.

Like the organization described in American Campaign Academy, you do not exclusively serve purposes described in IRC Section 501(c)(3) because you serve private interests more than incidentally. Although your vendors are not “insiders,” you have not shown your activities benefit members of a charitable class in a non-select manner.

Similar to the organization described in Rev. Rul. 77-111, Situation 1, your overall thrust is to accommodate the sales of your vendors through advertising and marketing as well as managing the market facility. Your sole objective is to provide a venue for the vendors to sell their items.

Like the organization described in Better Business Bureau, you operate for a substantial nonexempt purpose. You devote a substantial amount of your time, resources, and activities organizing a market to generate sales for your vendors. This substantial nonexempt purpose precludes exemption under IRC Section 501(c)(3).

Similar to the organization in Living Faith, you further a non-exempt commercial purpose. You have established a marketplace for vendors to come together and sell products to the general public at vendor established prices. Your activities are aimed at pairing potential buyers with sellers and facilitating sales transactions. This disqualifies you from recognition of exemption under IRC Section 501(c)(3).

Conclusion

You do not qualify for recognition of exemption under IRC Section 501(c)(3) because you do not meet the operational test. You are operating a marketplace primarily for the private benefit of vendors through trade with the general public. This is a substantial non-exempt purpose, which disqualifies you from 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