



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

Date:
01/06/2026
Employer ID number:

Form you must file:

Tax years:

Person to contact:

Release Number: 202614028
Release Date: 4/3/26
UIL Code: 501.03-00, 501.03-05, 501.36-01

Dear :

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

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

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

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

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

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

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:

Letter 437

Redacted Letter 4034

Redacted Letter 4038



**Department of the Treasury
Internal Revenue Service**

Date:
11/12/2025

Employer ID number:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Legend:

B = Date

C = State

D = Church

E = City

f dollars = Amount

UIL:

501.03-00

501.03-05

501.36-01

Dear _____ t:

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 were formed as a corporation in C on B. Your Articles state that your mission is to offer a place for friends, families, or travelers to gather and find rest while enjoying the rich history of E and the surrounding areas. Your Articles also state that your purpose, as a non-profit short-term rental facility, is to operate as a Type II supporting organization to exclusively support the ministries and missions of D, a church. Your board will have a minimum of three people (majority of the board) that are also on the board of D.

You offer a short-term rental house to the public. It can be used by anyone, including businesses and organizations to host meetings, retreats and conferences. You were established as a supporting organization for the missions and ministries of D, which is located next to your facility. All revenue from the rentals (after expenses are paid) will be donated to D to help further their charitable and religious purposes.

When we asked for details regarding your activities, you stated that you have one property that you rent and that D owns the property. You advertise your rental on a popular online platform. The nightly rental amount appears to be typical of the area. You don't have a process or procedure for guests to stay that can't pay the rental fee. You advertise the rental facility on a well-known public short-term rental website. We asked how your rental activities are distinguishable from a for-profit short-term rental and you responded "N/A."

Your rental facility is a farmhouse approximately one block from the city center. The facility has 4 bedrooms, is pet friendly, and is not handicap accessible. Guests have access to the entire rental facility from 3:00pm on check-in day to 11:00am on check-out day.

The rental advertisement describes the facility, in part, as a 2-story home which features a beautiful, newly renovated, fully equipped kitchen, a spacious dining area, comfortable living room with a large flat screen smart television, office area and a half bath on the main floor. The second floor includes bedrooms and full bath and shower facilities with double vanity sinks.

You have indicated you have no other present or planned activities outside of the rental activity and that there are no restrictions on who can utilize the rental facility.

Your sole source of anticipated revenue is receipts from admissions, merchandise sold, or services performed. The majority of your expenses are for occupancy expenses (for example, utilities) and professional fees. You anticipate the excess revenue over expenses to be a minimal amount, about f dollars, per year.

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 Regulation Section 1.501(c)(3)-1(a)(1) 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(e)(1) provides that an organization may meet the requirements of IRC Section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purposes of carrying on an unrelated trade or business. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes. An organization which is organized and operated for the primary purpose of carrying on an unrelated trade or business is not exempt under Section 501(c)(3).

Revenue Ruling 58-547, 1958-2 C.B. 275, states that the lease of property under ordinary commercial arrangements does not constitute the exercise of an educational or charitable function in and of itself. Only when it is shown that the lease is for purposes substantially related to the exempt functions of the lessor does the above exception apply. The fact that the lessee may be an exempt educational organization does not cause the rental of space thereto to become a related activity on the part of the lessor who may be organized in part for educational purposes.

Rev. Rul. 69-572, 1969-2 CB 119, concluded that a nonprofit organization created to construct and maintain a building for the exclusive purpose of housing and serving member agencies exempt under IRC Section 501(c)(3) is exempt under Section 501(c)(3). Because of the close connection between the organization and the charitable functions of the tenant-organizations and the rental of the facilities at rates substantially below fair rental value, the organization furthers the charitable purposes of the tenants. The organization primarily relied on charitable contributions from the public and loans from charitable organizations to pay expenses and costs.

In Rev. Rul. 73-127, 1973-1 C.B. 221, the Service held that an organization that operated a cut-price retail grocery outlet and allocated a small portion of its earnings to provide on-the-job training to the hard-core unemployed did not qualify for exemption. The organization's purpose of providing job training for the hardcore unemployed was charitable and educational within the meaning of the common law concept of charity; however, the organization's purpose of operating a retail grocery store was not. The ruling concluded that the operation of the store and the operation of the training program were two distinct purposes. Since the former purpose was not a recognized charitable purpose, the organization was not organized and operated exclusively for charitable purposes.

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. The petitioner's activities were largely animated by non-exempt purposes directed fundamentally to ends other than that of education.

In B.S.W. Group, Inc. v. Commissioner, 70 T.C. 352 (1978), the court found that a corporation formed to provide consulting services was not exempt under IRC Section 501(c)(3) because its activities constituted the conduct of a trade or business that is ordinarily carried on by commercial ventures organized for profit. Its primary purpose was not charitable, educational, nor scientific, but rather commercial. In addition, the court found that the organization's financing did not resemble that of the typical Section 501(c)(3) organizations. It had not solicited, nor had it received, voluntary contributions from the public. Its only source of income was from fees from services, and those fees were set high enough to recoup all projected costs and to produce a profit. Moreover, it did not appear that the corporation ever planned to charge a fee less than "cost."

In Schoger Foundation v. Commissioner, 76 T.C. 380 (1981), the organization operated a religious rental retreat. There were no organized religious activities, and recreational facilities were available for use by occupants. The Court stated that specific mandatory religious activities are not necessarily required, but there must be something more than the fact that the facility is promoted as a lodge "for Christian families." It was held that if an activity serves a substantial non-exempt purpose, the organization does not qualify for exemption even if the activity also furthers an exempt purpose.

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 IRC Section 501(c)(3). The court found substantial evidence to support a conclusion that the organization's activities furthered a substantial nonexempt purpose. 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

You are not exempt under IRC Section 501(c)(3). You fail the operational test as described in Treas. Reg. Section 1.501(c)(3)-1(a)(1) because you are formed for the substantial non-exempt purpose of operating a short-term housing rental to anyone interested.

To satisfy the operational test under Treas. Reg. Section 1.501(c)(3)-1(c)(1) an organization must establish that it is operated exclusively for one or more exempt purposes. You were formed for the substantial non-exempt purpose of conducting an unrelated trade or business, as described in Treas. Reg. Section 1.501(c)(3)-1(e)(1), which doesn't exclusively accomplish an exempt purpose.

Unrelated Trade or Business

An organization may carry on a trade or business as a substantial part of its activities if the operation of such activity is in furtherance of the organization's exempt purposes. In determining the existence of such primary purpose, all the facts and circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities. Your sole activity is offering a house for rent to anyone interested in an ordinary commercial manner. This activity isn't exclusively furthering an exempt purpose of D, and is an unrelated trade or business as described in Treas. Reg. Section 1.501(c)(3)-1(e)(1). Because you are operated for the primary purpose of carrying on an unrelated trade or business, you cannot be exempt under IRC Section 501(c)(3).

You are comparable to the organizations described in B.S.W. Group, Inc. and Living Faith, Inc. In B.S.W. Group, Inc., the court indicated that the provision of facilities and managerial services on a regular basis for a fee is a trade or business ordinarily carried on for profit. Your activities constitute the conduct of a trade or business that is ordinarily carried on by commercial ventures organized for profit. While charitable institutions often do provide services to other organizations, the cost is generally subsidized by contributors who do not receive anything in return. All of your anticipated revenue is from rental income. Your rental fees are high enough to cover your projected costs. Like the organization described in Living Faith, Inc., you are competing with for-profit rentals, using the same marketing tools. For these reasons, you are precluded from exemption under IRC Section 501(c)(3).

Substantial Non-Exempt Purpose

You are similar to the organization described in Rev. Rul. 58-547. You conduct property management activities in a manner indistinguishable from a for-profit rental on behalf of D, a church. The fact that the property is owned by D doesn't convert the activity to one that exclusively furthers an exempt purpose. Your activities don't substantially further D's exempt religious purposes. Rather, your activities substantially further non-exempt purposes.

You are distinguishable from the organization described in Rev. Rul. 69-572. In this ruling, the organization was found to be exempt under IRC Section 501(c)(3) because they leased the space at rates substantially less than the general commercial rate and had a close relationship with the tenants, who were also exempt. In contrast, you are leasing your facility to any interested individual or business at an amount that covers all the costs involved in leasing the facility. You advertise online alongside, and in competition with, for-profit rentals. Any distributions you may make to D are incidental to your rental property activities.

You are similar to the organization described in Rev. Rul. 73-127. While your organizational document states that you are organized exclusively to benefit D, which is described in Section 509(a)(1), your sole activity is the

rental of a house in competition with other short-term rentals. Any charitable purpose you have is incidental to your activity of operating a short-term rental property, which precludes you from exemption under IRC Section 501(c)(3).

As held in Better Business Bureau of Washington, D.C., Inc., a single non-exempt purpose, if substantial, will preclude tax exemption under IRC Section 501(c)(3). The operation of a short-term rental home to the public in direct competition with for-profit rentals is your only activity and is a non-exempt purpose. Any excess revenue over expenses will be donated to D. Your projected net receipts per year is minimal, f dollars. Your rental activity is indistinguishable from that of a for-profit rental company, other than the planned monetary donation to D. As explained in Schoger Foundation, if an activity serves a substantial non-exempt purpose, the organization does not qualify for exemption even if the activity also furthers an exempt purpose. You serve a substantial non-exempt purpose while only incidentally benefitting D.

Conclusion

Based on the information submitted, you are not operated exclusively for exempt purposes within the meaning of IRC Section 501(c)(3). You are organized for the substantial non-exempt purpose of renting a facility to the public for a fee, in competition with for-profit rental properties. These activities are an unrelated trade or business and not exclusively furthering an exempt purpose described in Section 501(c)(3). Any charitable purposes you have are incidental to your non-exempt purposes. Accordingly, 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