



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

Date:
03/11/2026
Employer ID number:

Form you must file:

Tax years:

Person to contact:
Name:
ID number:
Telephone:

Release Number: 202623018
Release Date: 6/5/26
UIL Code: 501.03-00, 501.03-05, 501.33-00

Dear :

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

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

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

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

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

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

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437
Redacted Letter 4034
Redacted Letter 4038



Department of the Treasury
Internal Revenue Service

Date:
01/23/2026
Employer ID number:

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

Legend:

B = Date
C = State
D = Number
E = Classification
F = Location
G = Number
H = Number
j dollars = Dollars
k percent = Percent
m percent = Percent

UIL:

501.03-00
501.03-05
501.33-00

Dear :

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

Issues

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

Facts

You submitted Form 1023-EZ, *Streamline 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 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 have not conducted and will not conduct prohibited activities under 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 more than expenditure limitations outlined in Section 501(h).
- Not provide commercial-type insurance as a substantial part of your activities.

Your Form 1023-EZ indicates you are formed for the sole purpose of maintaining a water line from an underground spring to a community of homes of less than D property owners and that, you are classified as a E. During the review of your Form 1023-EZ, detailed information was requested supplemental to the above attestations.

Your Bylaws state that you were formed for the purpose of providing a domestic water supply to residential landlords in an area located in F. They further state that while your purpose states that you are providing a domestic water supply to residences in F, you also provide water for commercial businesses. Your Bylaws stipulate that members may use water in fractional proportions based on the number of shares owned by the member. Members agree to allow commercial use of water in exchange for the application of a formula for distributing the cost of maintenance, repairs, additions and betterments of the water system based on usage.

You maintain a G-mile H-inch iron water pipeline from an established spring to a set of property owners and H commercial businesses. The property owners and businesses receive water from your pipeline and pay assessments based on the amount of water used. Your participation fees of j dollars are divided between homeowners and the H businesses based on a formula to calculate the anticipated usage of water by these users. The formula to determine assessments for shares of these participation fees is k percent to the homeowners and m percent to the commercial businesses. The share of fees are then further divided based upon the number of shares held by residents/businesses to determine the fee per share for residents and businesses. Your users then multiply their total number of shares, by the corresponding fee per share for the type of share that they own. Your total participation fees are determined annually based on past years of repairs, water testing, and permit fees.

Law

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

Treasury Regulation Section 1.501(c)(3)-1(a)(1) provides that, for an organization to be exempt and described in IRC Section 501(c)(3), that organization must be both organized and operated exclusively for one or more of

the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Treas. Reg. Section 1.501(c)(3)-1(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 purposes unless it serves a public rather than a private interest. It must not be operated for the benefit of designated individuals or the persons who created it.

Revenue Ruling 69-175, 1969-1 C.B. 149, describes an organization formed by the parents of pupils attending a private school exempt under IRC Section 501(c)(3). The organization provides bus transportation to and from the school for those children whose parents belong to the organization. The ruling states that when a group of individuals associate to provide a cooperative service for themselves, they are serving a private interest. By providing bus transportation for school children to school, the organization enables the participating parents to fulfill their individual responsibility of transporting their children to school.

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279, 66 S. Ct. 112, 90 L. Ed. 67, 1945 C.B. 375 (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 of the scope of IRC Section 501(c)(3).

In Benedict Ginsberg and Adele W. Ginsberg v. Commissioner, 46 T.C. 47 (1966), exemption was retroactively revoked for a corporation previously exempt under IRC Section 501(c)(3) that was organized to conduct the dredging of certain waterways. The property owners adjacent to the waterway were the only financial contributors to the organization. It was held that the corporation was organized and operated primarily for the benefit of those persons owning property adjacent to the waterways dredged rather than for public or charitable purposes.

In Korean-American Senior Mutual Association, Inc. v. Commissioner of Internal Revenue, 120 T.C.M. (CCH) 191 (Tax 2020), the court held that providing burial benefits for deceased members does not further charitable purposes since:

- The benefits are not directed towards meeting the needs of a charitable class,
- The program is operated in a commercial manner by collecting membership dues, and additional fees when members die, and paying out burial benefits to families of deceased members based on their contributions to the fund, and
- The program serves the private interests of its members rather than those of the public.

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 fail the operational test for the reasons explained below.

You are not described in Treas. Reg. Section 1.501(c)(3)-1(c)(1) because more than an insubstantial part of your activities is devoted to the non-exempt private purpose of providing water to your assessment paying members. Members join, pay assessments, and receive access to water. This program is not open to the general public, and members must pay dues to receive a benefit. This causes your program to further a substantial non-exempt private purpose.

You are not operated exclusively for exempt purposes under Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii) because, like the organization described in Rev. Rul. 69-175 and Benedict Ginsberg and Adele W. Ginsberg, substantially all your activities further the private interests of your members, and any benefit to the general public is incidental to the benefit to your members.

Like the organization described in Korean American Senior Mutual Association Inc, you operate a benefit program that is:

- Not directed towards meeting the needs of a charitable class,
- Operated in a commercial manner by collecting membership dues and paying for funeral and related expenses to members when they experience the loss of a family member or relative, and
- Serving the private interests of your dues paying members rather than those of the public.

The Supreme Court held in Better Business Bureau that a single nonexempt purpose, if substantial in nature, would preclude an organization from qualifying under IRC Section 501(c)(3) no matter the number or importance of truly exempt purposes. You primarily operate to provide water to your assessment paying members. By providing water only to your assessment paying members you serve a substantial non-exempt purpose which precludes you from exemption under Section 501(c)(3).

Conclusion

Based on the facts and circumstances presented, you do not qualify for exemption as an organization described in IRC Section 501(c)(3). You are not organized and operated exclusively for exempt purposes as set forth in Section 501(c)(3) because you are operated for the substantial nonexempt purpose of providing cooperative water service solely to your assessment paying members.

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