



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

Date:
06/29/2026
Employer ID number:

Form you must file:

Tax years:

Person to contact:

Release Number: 202639005

Release Date: 9/25/26

UIL Code: 501.00-00, 501.03-00, 501.03-30, 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
Letter 4038



**Department of the Treasury
Internal Revenue Service**

Date:
04/27/2026
Employer ID number:

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

Legend:

B = State
C = Date
D = Name
E = job field
F = Fellowship
t percent = percentage
u percent = percentage
v dollars = dollar amount

UIL:
501.00-00
501.03-00
501.03-30
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 were formed as a limited liability company (LLC) in the state of B on C. You have two individual members. One member, D, has t percent ownership and the other member is D's spouse who holds the remaining percent. You have no IRC Section 501(c)(3) members.

You provide funding for the education, research, and clinical/surgical training of a fellow in E. The name of your fellowship is the F. Currently, more than u percent of your efforts are focused on the fellowship. The fellowship is funded through donations from organizations and individuals.

The fellowship provides a living stipend of v dollars a month which you describe as salary in the itemized details of your expenses. You state the v dollars provides the fellow with a salary, benefits, research support,

continuing medical education, travel, and reimbursement for DEA, State licensing, and malpractice insurance. Additional funds will be provided to pay publication "open assess" fees for articles and manuscripts submitted for publication. The fellowship lasts a year.

D is your fellowship director who is part of the selection committee. The recipient of the F will perform their required duties at entities that D is associated with. There is no indication that the recipient of the F is free to pursue their training and education of E at other entities that are not associated with D.

Law

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

Treasury Regulation Section 1.117-4(c)(1) describes items not considered as scholarships or fellowship grants but rather compensation for past, present, or future employment services or represents payments for services which are subject to the direction or supervision of the grantor.

Treas. Reg. 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 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 described in IRC Section 501(c)(3) unless it serves a public rather than a private interest. Thus, it is necessary for an organization to establish 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.

Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i) defines the term educational as the instruction or training of the individual for the purpose of improving or developing his capabilities or the instruction of the public on subjects useful to the individual and beneficial to the community.

Notice 2021-56, Section 3.02 provides the required provisions that an LLC must have in their articles of organization and operating agreement. To qualify, both the LLC's articles of organization and its operating agreement must include:

- 1) Provisions requiring that each member of the LLC be either (i) an organization described in IRC Section 501(c)(3) and exempt from taxation under Section 501(a) or (ii) a governmental unit described in Section 170(c)(1) (or wholly owned instrumentality of such a governmental unit).
- 2) Express charitable purposes and charitable dissolution provisions in compliance with Treas. Reg. Sections 1.501(c)(3)-1(b)(1) and (4).

- 3) The express Chapter 42 compliance provisions described in Section 508(e)(1), if the LLC is a private foundation.
- 4) An acceptable contingency plan (such as suspension of its membership rights until a member regains recognition of its Section 501(c)(3) status) in the event that one or more members cease to be Section 501(c)(3) organizations or governmental units (or wholly owned instrumentalities thereof).

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279 (1945), the Supreme Court of the United States interpreted the requirement in IRC Section 501(c)(3) that an organization be "operated exclusively" by indicating that an organization must be devoted to exempt purposes exclusively. The presence of a single non-exempt purpose, if more than insubstantial in nature, will destroy the exemption regardless of the number and importance of truly exempt purposes.

The Miss Georgia Scholarship Fund, Inc. v. Commissioner of Internal Revenue, 72 T.C. 267 (1979), considered an organization whose only activity was providing funds in the form of scholarships to individuals which were conditional on performance of obligations assumed by the participants. The Court held these scholarships were compensatory in nature and, therefore, did not qualify as educational grants under IRC Section 117, and since this was the organization's only activity, it did not qualify for exemption under Section 501(c)(3).

In Retired Teachers Legal Defense Fund, Inc. v. Commissioner of Internal Revenue, 78 T.C. 280 (1982) to satisfy the requirements of section 501(c)(3), it is necessary for an organization to establish 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.

In Local Union 712, I.B.E.W Scholarship Trust Fund v. C.I.R., T.C. Memo. 1983-76 (1983), the Tax Court upheld the Service's position that the organization was not operated exclusively for exempt purposes under IRC Section 501(c)(3), since it was serving the private interests of its members. The Tax Court also found that the sole activity of the organization was the provision of grants that were compensatory in nature to the members of the union.

In American Campaign Academy v. Commissioner, 92 T.C. 1053 (1989), the Tax Court held that when an organization operates for the benefit of private interests, such as designated individuals, the creator or his family, or persons directly or indirectly controlled by such private interests, the organization by definition does not operate exclusively for IRC Section 501(c)(3) exempt purposes.

Application of law

IRC Section 501(c)(3) and Treas. Reg. Section 1.501(c)(3)-1(a)(1) set forth two main tests to qualify for 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).

Notice 2021-56 requires that each member of the LLC be either (i) an organization described in IRC Section 501(c)(3) and exempt from taxation under IRC Section 501(a) or (ii) a governmental unit described in IRC Section 170(c)(1) (or wholly owned instrumentality of such a governmental unit). Both of your members are individuals who are not described under Section 501(c)(3) or Section 170(c)(1).

While you have activities that are educational as described in Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i), you are substantially operated for the private interests of D. There is no indication that the recipient of the F is free to pursue their training and education of E at other entities that are not associated with D. See Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii), American Campaign Academy, and Retired Teachers Legal Defense Fund, Inc.

You are like the organizations described in Miss Georgia Scholarship Fund, Inc. and Local Union 712, I.B.E.W. Scholarship Trust Fund, which were denied tax exemption under IRC Section 501(c)(3), because your fellowship grant is compensatory in nature. In the itemized details of your expenses, you describe the fellowship grant as salary. Furthermore, you state that the fellowship grant provides salary and benefits, as well as funds for research support, continuing medical education, travel, and reimbursement for DEA, State licensing, and malpractice insurance. See Treas. Reg. Section 1.117-4(c)(1).

You are like the organization described in Better Business Bureau of Washington, D.C., Inc., which was denied tax exemption under IRC Section 501(c)(3), because although you have an educational purpose, you substantially further the private interests of D rather than the public interests and the fellowship grant is compensatory in nature. The presence of these non-exempt purposes (furthering the private interests of D and providing compensation), are more than insubstantial in nature, and destroy the exemption regardless of the number and importance of truly exempt purposes.

Conclusion

You fail the organizational test because you are organized as an LLC and your members are not an organization described in IRC Section 501(c)(3) and exempt from taxation under IRC Section 501(a) or a governmental unit described in IRC Section 170(c)(1) (or wholly owned instrumentality of such a governmental unit). You fail the operational test because you have failed to establish that you are operated exclusively for exempt purposes. Your substantial purposes are furthering the private interests of D and paying compensation. Although you carry out educational activities, these are incidental to your primary purposes. Therefore, you do not qualify for 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