



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

Release Number: 202643018
Release Date: 10/23/26
UIL Code: 501.03-00

Date:
April 14, 2026
Taxpayer ID number (last 4 digits):
Form:
Tax periods ended:
Person to contact:
Name:
ID number:
Telephone:
Fax:
Last day to file petition with United States
Tax Court:
July 13, 2026

CERTIFIED MAIL - Return Receipt Requested

Dear :

Why we are sending you this letter

This is a 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), effective . Your determination letter dated , is revoked.

Our adverse determination as to your exempt status was made for the following reasons: Your organization does not qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3). IRC Section 501(c)(3) requires that an organization be organized and operated exclusively for one or more exempt purposes, and that no part of its net earnings inure to the benefit of any private shareholder or individual. Treasury Regulation Section 1.501(c)(3)-1(a) further provides that an organization must meet both the organizational and operational tests to qualify for exemption. If an organization fails to satisfy either test, it does not qualify for exemption under IRC Section 501(c)(3).

Organizations that are not exempt under IRC Section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms and information please visit **IRS.gov**.

Contributions to your organization are no longer deductible under IRC Section 170.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

If you decide to contest this determination, you can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. You can download a fillable petition or complaint form and get information about filing at each respective court's website listed below or by contacting the Office of the Clerk of the Court at one of the addresses below. Be sure to include a copy of this letter and any attachments and the applicable filing fee with the petition or complaint.

You can eFile your completed U.S. Tax Court petition by following the instructions and user guides available on the Tax Court website at ustaxcourt.gov/dawson.html. You will need to register for a DAWSON account to do so. You may also file your petition at the address below:

United States Tax Court
400 Second Street, NW
Washington, DC 20217
ustaxcourt.gov

The websites of the U.S. Court of Federal Claims and the U.S. District Court for the District of Columbia contain instructions about how to file your completed complaint electronically. You may also file your complaint at one of the addresses below:

US Court of Federal Claims
717 Madison Place, NW
Washington, DC 20439
uscfc.uscourts.gov

US District Court for the District of Columbia
333 Constitution Avenue, NW
Washington, DC 20001
dcd.uscourts.gov

Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under IRC Section 7428.

We'll notify the appropriate state officials (as permitted by law) of our determination that you aren't an organization described in IRC Section 501(c)(3).

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. However, you may be eligible for free help from the Taxpayer Advocate Service (TAS) if you can't resolve your tax problem with the IRS or if you believe an IRS procedure just isn't working as it should. TAS is an independent organization within the IRS that helps taxpayers and protects taxpayer rights. Visit TaxpayerAdvocate.IRS.gov/contact-us or call 877-777-4778 (TTY/TDD 800-829-4059) to find the location and phone number of your local advocate. Learn more about TAS and your rights under the Taxpayer Bill of Rights at TaxpayerAdvocate.IRS.gov. Do not send your Tax Court petition to TAS. Use the Tax Court address provided earlier in the letter. Contacting TAS does not extend the time to file a petition.

Where you can find more information

Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

Find tax forms or publications by visiting IRS.gov/forms or calling 800-TAX-FORM (800-829-3676). If you have questions, you can call the person shown at the top of this letter.

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

You may fax your documents to the fax number shown above, using either a fax machine or online fax service. Protect yourself when sending digital data by understanding the fax service's privacy and security policies.

Keep the original letter for your records.

Sincerely,

A solid black rectangular box used to redact the signature of Lynn A. Brinkley.

Lynn A. Brinkley
Director, Exempt Organizations Examinations

Enclosures:
Publication 1
Publication 594
Publication 892



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

Date:
02/05/2026
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Manager's contact information:

Name:

ID number:

Telephone:

Response due date:

03/09/26

CERTIFIED MAIL – Return Receipt Requested

Dear :

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)3.

If you agree

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(3) for the periods above.

If you disagree

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

If we don't hear from you

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final adverse determination letter.

Contacting the Taxpayer Advocate Office is a taxpayer right

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 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.

Additional information

You can get any of 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 shown at the top of this letter.

Sincerely,

Lynn A. Brinkley
Director, Exempt Organizations Examinations

Enclosures:
Form 886-A and 6018

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period Ended

ISSUE:

Whether () continues to qualify for exemption under Internal Revenue Code Section (IRC) 501(c)(3) for the tax year ending , and ?

FACTS:

was incorporated in and is located in . The organization is registered as a nonprofit mutual benefit corporation with the State of . According to the articles of incorporation, the organization's purpose is: "

submitted Form 1023, Application for Recognition of Exemption on , requesting exemption under IRC Section 501(c)(3) . Form 1023 was received by the on . The Form 1023 exemption application submittal includes a copy of the Articles of Incorporation.

According to the Form 1023, purpose is "

activities and programs on Form 1023 consist of: ." specific

Determination letter L-399 was issued by the office on was granted exemption under IRC section 501(c)3 and was classified as a public charity as described in section IRC 170(b)(1)(A)(vi). The organization is required and filed Form 990, Return of Organization Exempt from Income Tax, for the tax year ending .

The start of examination commenced with the initial exam appointment letter L6031 which was issued on . During the initial interview dated , President, confirmed that was established as a fundraising arm in support of (for profit organization) to procure donations and fund athletes with tuition, uniform, or travel expenses. For example, if an organization or individual (i.e. parents) that wish to contribute a monetary donation, the donor would make the endowment out to and would then in turn write a check from to , where the funds would be used for equipment purchases, scholarships, and related expenses. Furthermore, explained that exempt activities are conducted as is not active in soliciting for contributions/donations nor has the organization held any recent fundraising events or activities. Also, confirmed that does not incur any facility expenses as is renting the facility, thus, there is no incurred facility expense as is not a large organization with insignificant expenses as the organization is primarily set up to facilitate donations.

During our financial examination of books and records, provided supporting documentation illustrating transactions showing the direct fund transfer from to . Additionally, review of general ledger revealed transactions categorized as "loans to " without corresponding promissory notes

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or loan agreements substantiating the transfers.
and he is also the owner and founder of

bookkeeping is performed and maintained by
(for profit organization).

LAW:

INTERNAL REVENUE CODE (IRC)

IRC Section 501(c)(3) exempts from Federal income tax: corporations, and any community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation (except as otherwise provided in subsection(i)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

IRC Section 1.501(c)(3)-1(a) provides that in order to be exempt as an organization described in IRC Section 501(c)(3), an 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.

Internal Revenue Code (IRC) Section 501(c)(3) prohibits private inurement, stating that no part of a tax-exempt organization's net earnings may benefit private shareholders or individuals (insiders). This absolute prohibition ensures that charitable assets are not diverted to private use.

Treasury Regulation (Treas. Reg.)

Treas. Reg. 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 insubstantial part of its activities is not in furtherance of an exempt purpose.

The operational test, formulated in Treas. Reg. Section 1.501(c)(3)-1(c)(1), provides:

(c) Operational Test.

- (1) **Primary activities.** 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.

The term "exclusively" has not been construed to mean "solely" or "absolutely without exception." An organization that engages in exempt activities qualifies for exempt status so long as those nonexempt activities are only incidental and less than substantial.

The term "charitable" is used in section 501(c)(3) in its generally accepted legal sense and includes relief of the poor and distressed or of the underprivileged as well as the advancement of education. Treas. Reg. section 1.501(c)(3)-1(d)(2).

Treas. Reg. 1.501(c)(3)-1(c)(2) provides that the operational test is not satisfied where any part of the organization's earnings inures to the benefit of private shareholders or individuals, and where the organization serves a private rather than a public interest.

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Treas. Reg. 1.501(c)(3)-1(d)(i) states, an organization may be exempt as an organization described in section 501(c)(3) if it is organized and operated exclusively for one or more of the following purposes:

- (a) Religious,
- (b) Charitable,
- (c) Scientific,
- (d) Testing for public safety,
- (e) Literary,
- (f) Educational, or
- (g) Prevention of cruelty to children and animals.

Treas. Reg. 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not organized or operated exclusively for one or more of the purposes specified in IRC 501(c)(3) unless it services a public rather than a private interest. Thus, to meet the requirement of this subdivision, 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.

Case Law

Better Business Bureau of Washington, D.C. v. United States, 326 U.S. 279 (1945); Copyright Clearance Center v. Commissioner, 79 T.C. 793, 804 (1982), the Supreme Court held that the presence of a single non-exempt purpose, if substantial in nature, will prevent exemption regardless of the number or importance of truly exempt purposes. The court held that a trade association had an "underlying commercial motive" that distinguished its educational program from that carried on by a university.

Est of Hawaii v. Commissioner, 71 T.C. 1067 (1979), it was determined that a non-profit organization did not qualify for tax-exempt status as the court found that the organization was set up to subsidize for profit corporations that primarily benefited private, for-profit interests rather than the public.

Community Education Foundation v. Commissioner, T.C. Memo. 2016-223 (2016): The U.S. Tax Court sustained the IRS's revocation of a foundation's Section 501(c)(3) status. The organization admitted to a significant period of inactivity and failed to demonstrate that it engaged in meaningful activities furthering exempt purposes. The court held that this inactivity demonstrated a failure to operate exclusively for exempt purposes, thus failing the operational test.

Revenue Rulings

Revenue Ruling 75-384: This ruling establishes that an organization must continue to pursue its charitable activities to maintain its tax-exempt status.

TAXPAYER'S POSITION:

The organization was given an opportunity to open subsequent years for examination to allow _____ to demonstrate that the tax year ending _____, was an anomaly, however, the organization indicated there has been no significant changes with their operations and activities from prior and subsequent returns. The organization stated that they have no desire to continue with the expansion of the scope of audit to subsequent years because they conceded the tax year ending _____, was not an anomaly but a usual year.

Thus, the expansion of the scope of examination to subsequent year ending _____, will not be warranted. Any additional auditing _____ will not serve a useful purpose because the examination will ultimately show the organization is not "operated exclusively" for one or more exempt purposes as the organization does not engage primarily in activities which accomplish one or more of such exempt purposes specified in IRC Section 501(c)(3) which is grounds for revocation. The organization concurs with the service's position of revocation.

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GOVERNMENT'S POSITION:

stated purpose is "

" On , during our initial interview with , President, confirmed that the organization seldomly conducts fundraisers and activities that furthers the exempt purpose as the organization is inactive and is primarily setup to facilitate donations with direct financial funding to (for-profit organization). was established as a fundraising arm in support of (for profit organization) to procure donations and fund athletes with tuition, uniform, or travel expenses.

Generally, for-profit organization can make contributions to a nonprofit organization, however, a nonprofit cannot transfer its charitable funds to a for-profit entity to subsidize its operations because it violates the "private benefit" and "inurement" doctrines of tax-exempt status. The nonprofit must be operated for the public good, not to serve private interests.

Consequently, the arbitrary fund transfers from to (for profit organization) and general loans from to without proper recordkeeping (i.e. promissory, loan agreements) are considered inurement and was validated during our review of financial records where we identified transactions showing the direct fund transfer from to which confirms that inurement exists. These transactions constitute private inurement because a transfer of charitable funds to a for-profit entity has taken place and it has benefited a private individual with insider benefits, who has a special relationship with the organization, such as an officer, director, or key employee. Direct fund transfers between to should not have taken place because did not earn nor was entitled to the funding received as neither goods or services were provided in return to . Also, cannot arbitrarily provide funding without any regard as financial distribution must be managed with due diligence, consideration of purpose, and responsibility.

These occurrences establish the organization's noncompliance with Treas. Reg. 1.501(c)(3)-1(c)(2) which provides that the operational test is not satisfied where any part of the organization's earnings inure to the benefit of private shareholders or individuals, and where the organization serves a private rather than a public interest.

Furthermore, the organization's lack of charitable activities, little to no occurrence of engagement of meaningful exempt activities, and absence of documentation in substantiating and furthering the exempt purpose establishes the organization's noncompliance with Treas. Reg. Section 1.501(c)(3)-1(c)(1) which provides 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.

Additionally, the organization confirmed that was established as a fundraising arm in support of (for profit organization) to procure donations and fund athletes with tuition, uniform, or travel expenses. This constitutes a noncompliance with the charitable purpose test, where a 501(c)(3) organization must be "organized and operated exclusively" for exempt purposes. If a substantial part of its activities involves subsidizing a for-profit business, the organization fails the "operational test" for tax exemption. s establishment as a fundraising arm in support of has failed this requirement as the organization has not been operating exclusively for exempt purposes as a substantial part of its activities involves financing (for-profit organization).

Therefore, it is the government's position that the organization's IRC Section 501(c)(3) tax exemption should be revoked as we determined that inurement exists with the organization and is not operating exclusively for one or more of the purposes in IRC Section 501(c)(3), thus, further failing to meet the operational test.

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As a result, the exempt status of _____ should be revoked effective _____ filing requirement
should be Form 1120, U.S. Corporation Income Tax Return, for the future years.

CONCLUSION:

The organization does not qualify for exemption from federal income tax as an organization described in Code Section 501(c)(3) states that no part of the net earnings of which inures to the benefit of any private shareholder or individual and specifically, Treas. Reg section 1.501(c)(3)-1(a) provides that to be exempt as an organization, an 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.

_____ is in violation with IRC Section 501(c)3 as it was confirmed and verified with review of financial records where we identified transactions showing the direct fund transfer from _____ to _____ (for-profit organization) where _____ is the owner and founder of _____ (for profit organization). which validates that private inurement exists. Treas. Reg. 1.501(c)(3)-1(c)(2) strictly prohibited from allowing any net earnings to inure (vest or accrue) to the benefit of any insider, such as officers, directors, or key employees. This absolute rule requires that no part of the organization's income or assets may be used for private, personal gain, rather than public, charitable purposes.

Additionally, _____ is not operating exclusively for an exempt purpose under IRC section 501(c)(3). _____ seldomly conducts charitable activities that further the exempt purpose as the organization is inactive with its exempt programs and is primarily set up to facilitate donations with direct financial funding to _____ (for-profit organization) which is in violation with Treas. Reg. Section 1.501(c)(3)-1(c)(1) and is grounds for revocation of the EO's tax-exempt recognition. Also, _____ does not meet the operational test as the organization has not been operating exclusively for exempt purposes as a substantial part of its activities involves financing _____ (for-profit organization). By operating in the manner described, _____ is furthering a substantial nonexempt purpose.

_____ no longer qualifies for exemption under IRC Section 501(c)(3), effective _____.

Form 1120 returns should be filed for the tax periods ending _____, and all subsequent years.