

Internal Revenue Service

Department of the Treasury

District
Director

Date: NOV 18 1992

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

The information submitted indicates that you were incorporated under the laws of the state of [REDACTED] on [REDACTED].

You state that you anticipate receiving funds from corporate sponsors and holding an annual event in your effort to raise money for distribution to organizations that qualify as exempt organizations under section 501(c)(3) of the Internal Revenue Code of 1986, as amended; and this annual event is projected to be an annual basketball tournament, open to all basketball players. The tournament's primary focus will be to annually identify a qualified exempt organization and to raise money through the tournament for the organization. It is anticipated that this tournament will be held in mid-summer every year, subject to schedule coordination. The first tournament occurred on [REDACTED].

The financial data you submitted for [REDACTED], shows that you had total revenue of \$[REDACTED] and \$[REDACTED] was given to the boy's and girl's clubs of [REDACTED]. Your contributions were less than [REDACTED]% of total revenue.

Your proposed budgets for [REDACTED] and [REDACTED] show total revenue of \$[REDACTED] for each year. In each of these years you propose to donate \$[REDACTED] to charity. This is less than [REDACTED]% of total revenue.

Section 501(c)(3) of the Code provides exemption for:

"Corporations...organized and operated exclusively for religious, charitable...for educational purposes...no part of the net earnings of which inures to the benefit of any private shareholder or individual..."

[REDACTED]

Section 1.501(c)(3)-1(c)(1) of the Income Tax Regulations 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)...."

Revenue Ruling 64-182, 1964-1 C.B. (Part 1), 186, holds that any organization which derives all of its income from a commercial enterprise is nevertheless entitled to exemption under section 501(c)(3) of the Code where it is shown to be carrying on, through contributions, a charitable program commensurate in scope with its financial resources.

The operation of a basketball tournament is not, in itself, a charitable activity as the term is defined by the regulations. Rather, it is a trade or business of the type ordinarily carried on by a commercial enterprise for profit.

Your charitable contributions are not commensurate with your financial resources. The facts represented in your file indicate that the distribution made to charity is nominal in light of the scope of gross receipts produced by the basketball tournament and related activities. Accordingly, you do not qualify for exemption under Code section 501(c)(3).

We also considered whether you might qualify under Code section 501(j). Code section 501(j)(2) states that the term "qualified amateur sports organization" means any organization organized and operated exclusively to foster national or international amateur sports competition if such organization is also organized and operated primarily to conduct national or international competition in sports or to support and develop amateur athletes for national or international competition in sports.

You do not promote national or international sports competition and you are not organized or operated to primarily conduct national or international competition in sports or to support and develop amateur athletes for national or international competition in sports. Accordingly, you do not qualify for recognition of exemption from Federal income tax under Code section 501(c)(3). You are therefore required to file Federal income tax returns.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issues, please indicate this in your protest. The enclosed Publication 692 gives instructions for filing a protest.

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[REDACTED]

If we do not hear from you within 30 days, this letter will be our determination in the matter.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Code as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

If this determination letter becomes a final determination, we will notify the appropriate State Officials, as required by section 6104(c) of the Code, that based on the information we have, we are unable to recognize you as an organization of the type described in Code section 501(c)(3).

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

Sincerely,

[REDACTED]
District Director

Enclosures:
Publication 892
Form 6018