



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

TEGE EO Examinations Mail Stop 4920 DAL
1100 Commerce St.
Dallas, Texas 75242

Date: May 18, 2018

Number: **201833024**

Release Date: 8/17/2018

Tax Year Ending:

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:

(Phone)

(Fax)

UIL Code: 501.03-00

CERTIFIED MAIL – RETURN RECEIPT

Dear _____ :

This is a final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(3) effective March 21, 20XX. Your determination letter dated October 22, 20XX is revoked.

The revocation of your exempt status was made for the following reason(s):

Organizations described in section 501(c)(3) of the Internal Revenue Code and exempt from tax under section 501(a) must be both organized and operated exclusively for one or more of the purposes identified in section 501(c)(3). Your constitutive document provides your purpose is to improve the health, welfare, and morale of the members and family of a specified work unit. Your principal activities have consisted of staging social and recreational gatherings designed to boost the morale of the members of the work unit. These purposes and activities do not fulfill the organizational and operational requirements for an organization described in section 501(c)(3). Accordingly, your exempt status is revoked effective March 21, 20XX.

Contributions to your organization are no longer deductible under IRC §170 after March 21, 20XX.

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

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules and the appropriate forms for filing petitions for declaratory judgment by referring to the enclosed Publication 892. You may write to the courts at the following addresses:

United States Tax Court
400 Second Street, N.W.
Washington, D.C. 20217

U.S. Court of Federal Claims
717 Madison Place, N.W.
Washington, D.C. 20439

U.S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, D.C. 20001

Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under section 7428 of the Internal Revenue Code.

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 1-877-777-4778.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Maria Hooke
Director, EO Examinations

Enclosure:
Publication 892



Department of the Treasury
Internal Revenue Service
TE/GE Exempt organizations

Date:
October 27 2017
Taxpayer Identification Number:

Form:

Tax year(s) ended:

Person to contact/ ID number:

/

Contact numbers:

Toll Free

Long Distance

Fax:

Manager's name/ ID number:

/

Manager's contact number:

Response due date:

Certified Mail - Return Receipt Requested

Dear _____ :

Why you are receiving this letter

We propose to revoke your status as an organization described in section 501(c)(3) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

What you need to do if you agree

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(3).

After we issue the final revocation letter, we'll announce that your organization is no longer eligible for contributions deductible under section 170 of the Code.

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 revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

Effect of revocation status

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

What you need to do if you disagree with the proposed revocation

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You may also file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

Contacting the Taxpayer Advocate Office is a taxpayer right

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't been resolved through normal channels gets prompt and proper handling. You may call toll free 1-877-777-4778 and ask for Taxpayer Advocate assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service
Office of the Taxpayer Advocate

For additional information

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,



For Maria Hooke
Director, Exempt Organizations Examinations

Enclosures:
Report of Examination
Form 6018
Form 886-A
Publication 892
Publication 3498

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended December 31, 20XX

Date of Notice: October 27, 20XX

Issues:

Whether _____, (_____), which qualified for exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, should be revoked due to its failure to respond and produce records to substantiate that they meet the organizational and operational test?

Facts:

_____, (_____) applied for tax-exempt status by filing the Form 1023-EZ on October 1, 20XX, and was granted tax-exempt status as a 501(c)(3) on October 22, 20XX, with an effective date of March 21, 20XX.

An organization exempt under 501(c)(3) needs to be organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary or educational purposes and to foster national and amateur sports competition.

The organization was selected for audit to ensure that the activities and operations align with their approved exempt status.

The organization failed to respond to the Internal Revenue Service attempts to obtain information to perform an audit of Form 990-N for the tax year December 31, 20XX.

The Form 1023-EZ application list the phone number of _____ for the president of (_____). No response came from the president at this number but I then had contact with the treasurer from a returned call at the number _____.

Per the State of _____ web-site, it indicates the organization does not exist on their records, copy attached from state web-site.

Your formation document, your Bylaws, in part, state your purpose and objectives are:

To improve the health, welfare, and morale of the member of the _____ and their families.

In furtherance of your purposes, you host two BBQ parties to help boost the morale of the maintenance squadron. Any donations from individuals or companies are used to provide for the two BBQs, parties, or going away gifts for people leaving the squadron.

- Correspondence for the audit was as follows:

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- Letter 3606 (Rev. 6-2012) with Form 4564, Information Document Request, (IDR) and publication 1, was mailed to the organization on June 6, 20XX, with a response date of July 6, 20XX. This letter was received by the organization.
- Received partial response from organization on October 21, 20XX. This included the Constitution and By Laws of the organization (neither one being state stamped or state approved), a list of activities, a budget for the year, and a copy of one formal meeting minutes.
- Letter 3844-B (Rev. 11-2015) with attachments, was mailed certified to the organization on January 25, 20XX, with a response date of February 27, 20XX, Article Number . Per the United States Postal Service (USPS) tracking, this was received on January 30, 20XX at 9:55 as delivered to agent. However, this letter was received back at the Internal Revenue Service on February 21, 20XX showing as insufficient address on the envelope, with the return receipt received, unsigned, on February 2, 20XX.
- Letter 3844-B (11-2015), February 23, 20XX, Letter returned as undeliverable due to insufficient address.
- March 23, 20XX, I received another partial response from the organization. This contained a more detailed financial report of revenues and expenses for the year under examination.
- May 5, 20XX, Letter 3844-B (11-2015), with 2nd IDR. The letter including the organization's determination files, was mailed certified to the organization, per the address located on IDRS, with a respond date of June 7, 20XX. Article Number . Per USPS tracking this was received by the organization on May 12, 20XX, at 9:56 am.
- Telephone contact for the audit was as follows:
 - July 13, 20XX, I called the phone number listed on the Form 1023 application for the President of and left a voice message for the president to please call me back.
 - July 25, 20XX, I received a voice message back from the Treasurer/Secretary and he left a phone number, . I attempted to return the call to this officer of the org and had to leave a message of my own. I left my name, phone number, and best time to call.
 - August 17, 20XX, No response. I called the phone number listed on the

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Form 1023-EZ application for the President and phone number for the Treasurer/Secretary and had to leave a voice message because no one answered either line.

- August 18, 20XX, received a call back from the Treas./Sec. I explained that we needed better worded articles of association (Purpose and Dissolution Clauses) with date signed by officers. I also asked if there was just one meeting minutes for the year, to which he said that was all. He indicated he would get that information to me within the week.
- August 29, 20XX, No reply. Called number of the Treas./Sec. and left a voice message to call me.
- September 27, 20XX, Still no reply. Called and spoke with Treas./Sec. and explained we still did not receive our information. He said because they are on an that the mail is sometimes slow going out or coming in. I said we would wait another week.
- November 1, 20XX, after receiving a response and still having questions, I called both the President and Treas./Sec. and left a message that I needed to talk to them.
- November 2, 20XX, I spoke with Treas./Sec. to explain what was needed and he indicated he would get the information to me as soon as he could.
- February 23, 20XX, I left a voice message with Treas./Sec. to obtain additional information from the org.
- February 28, 20XX, I stayed later to contact officer of organization. I explained we needed additional information and what I was. Treas./Sec. said he would mail information to me within the week.
- April 4, 20XX, Had to leave another voice message to Treas./Sec. to call me back.
- July 24 & 25, 20XX, Attempted to contact Treas./Sec. and left messages to have him call me.
- August 1, 20XX, Contacted Treas./Sec. to ask if they were going to reply to the last IDR I sent them. He knew nothing about it and checked his mailroom and found it, after sitting there over a month. He said he would look at it and respond to me. I gave him until August 17, 20XX to reply.
- August 21, 20XX, No reply from org. I called and left a message with another

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military officer at the base to have the Treas./Sec. call me.

- September 12, 20XX, I attempted a conference call with upper management and with the officer of the organization and finally reached them. Was unable to connect all three of us. Asked about them responding and he indicated they are extremely busy with hurricanes in . Their group is getting planes maintained for trips to for aide to the area thickened. I gave him until October 15, 20XX to respond or letter of revocation would be going out to them.

Law:

Internal Revenue Code (IRC) §501(c)(3) of the Code provides that an organization organized and operated exclusively for charitable or educational purposes is exempt from Federal income tax, provided no part of its net earnings inures to the benefit of any private shareholder or individual.

IRC §511 of the Internal Revenue Code imposes a tax at corporate rates under section 11 on the unrelated business taxable income of certain tax-exempt organizations.

IRC §6001 of the Code provides that every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title.

IRC §6033(a)(1) of the Code provides, except as provided in section 6033(a)(2), every organization exempt from tax under section 501(a) shall file an annual return, stating specifically the items of gross income, receipts and disbursements, and such other information for the purposes of carrying out the internal revenue laws as the Secretary may by forms or regulations prescribe, and keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Treasury Regulations (Regulation) 1.501(c)(3)-1 In order to be exempt under §501(c)(3) the organization must be both organized and operated exclusively for one or more of the purposes specified in the section. (religious, charitable, scientific, testing for public safety, literary or educational).

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Regulation §1.501(c)(3)-1(a)(1) of the regulations states that in order to be exempt as an organization described in 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.

Regulation 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will not be regarded as "operated exclusively" for one or more exempt purposes described in section 501(c)(3) of the Code if more than an insubstantial part of its activities is not in furtherance of a 501(c)(3) purpose. Accordingly, the organization does not qualify for exemption under section 501(c)(3) of the Code.

Regulation §1.6001-1(c) of the Code provides that such permanent books and records as are required by paragraph (a) of this section with respect to the tax imposed by section 511 on unrelated business income of certain exempt organizations, every organization exempt from tax under section 501(a) shall keep such permanent books of account or records, including inventories, as are sufficient to show specifically the items of gross income, receipts and disbursements. Such organizations shall also keep such books and records as are required to substantiate the information required by section 6033. See section 6033 and §§ 1.6033-1 through 1.6033-3.

Regulation §1.6001-1(e) of the Code provides that the books or records required by this section shall be kept at all time available for inspection by authorized internal revenue officers or employees, and shall be retained as long as the contents thereof may be material in the administration of any internal revenue law.

Regulation §1.6033-1(h)(2) of the regulations provides that every organization which has established its right to exemption from tax, whether or not it is required to file an annual return of information, shall submit such additional information as may be required by the district director for the purpose of enabling him to inquire further into its exempt status and to administer the provisions of subchapter F (section 501 and the following), chapter 1 of the Code and section 6033.

Regulation §1.61-1 of the regulations provides that Gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property, or services. Income may be realized, therefore, in the form of services, meals, accommodations, stock, or other property, as well as in cash.

Rev. Rul. 59-95, 1959-1 C.B. 627, concerns an exempt organization that was requested to produce a financial statement and statement of its operations for a certain year. However, its records were so incomplete that the organization was unable to furnish such statements. The Service held that the failure or inability to file the required information

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return or otherwise to comply with the provisions of section 6033 of the Code and the regulations which implement it, may result in the termination of the exempt status of an organization previously held exempt, on the grounds that the organization has not established that it is observing the conditions required for the continuation of exempt status.

Organization's Position

Taxpayer's position is unknown at this time.

Government's Position

Based on the above facts, the organization did not respond to verify that they are organized and operated exclusively for one or more of the purposes specified in IRC Section 501(c)(3). If an organization fails to meet either the organizational test or the operational test, it is not exempt.

In accordance with the above-cited provisions of the Code and regulations under sections 6001 and 6033, organizations recognized as exempt from federal income tax must meet certain reporting requirements. These requirements relate to the filing of a complete and accurate annual information (and other required federal tax forms) and the retention of records sufficient to determine whether such entity is operated for the purposes for which it was granted tax-exempt status and to determine its liability for any unrelated business income tax.

Section 1.6033-1(h)(2) of the regulations specifically state that exempt organizations shall submit additional information for the purpose of enabling the Internal Revenue Service to inquire further into its exempt status.

Using the rationale that was developed in Revenue Ruling 59-95, the Organization's failure to provide requested information should result in the termination of exempt status.

Conclusion:

Based on the foregoing reasons, the organization does not qualify for exemption under section 501(c)(3) and its tax exempt status should be revoked.

It is the IRS's position that the organization failed to establish that it meets the reporting requirements under IRC §§ 6001 and 6033 to be recognized as exempt from federal income tax under IRC § 501(c)(3). Furthermore, the organization has not established that it is observing the conditions required for the continuation of its exempt status or that it is organized and operated exclusively for an exempt purpose. Accordingly, the

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organization's exempt status is revoked effective January 1, 20XX.

Form 1120, *U.S. Corporation Income Tax Return*, should be filed for the tax periods after January 1, 20XX.