

Tax Exempt and Government Entities Division

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Date: November 7, 2013

Taxpayer identification number:
Form:

Tax year(s) ended:
December 31, 20XX
December 31, 20XX
December 31, 20XX

Person to contact/ID number:

Contact numbers:

Telephone:

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

Enclosed is a copy of our report of examination explaining why revocation of your organization's tax-exempt status is necessary.

What you need to do if you agree

If you agree with our findings, please sign the enclosed Form 6018-A, *Consent to Proposed Action*, and return it to the contact at the address listed above. We'll send you a final letter revoking your exempt status.

If we don't hear from you

If we don't hear from you within 30 calendar days from the date of this letter, we'll process your case based on the recommendations shown in the report of examination and this letter will become final.

Effects of revocation

In the event of revocation, you'll be required to file federal income tax returns for the tax year(s) shown above. File these returns with the contact at the address listed above within 30 calendar days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

What you need to do if you disagree with our findings

If you disagree with our position, you may request a meeting or telephone conference with the supervisor of the contact identified in the heading of this letter. You also may 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.

If you and Appeals don't agree on some or all of the issues after your Appeals conference, or if you don't request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court after satisfying procedural and jurisdictional requirements.

You may also request that we refer this matter for technical advice as explained in Publication 892. Please contact the person identified in the heading of this letter if you're considering requesting technical advice. If we send a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, then 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 Service (TAS). **TAS is your voice at the IRS. This service helps taxpayers whose problems with the IRS are causing financial difficulties; who have tried but haven't been able to resolve their problems with the IRS; and those who believe an IRS system or procedure is not working as it should. If you believe you are eligible for TAS assistance, you can call the toll-free number 1-877-777-4778 or TTY/TDD 1-800-829-4059. For more information, go to www.irs.gov/advocate.** 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 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,

Nanette M. Downing
Director, EO Examinations

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

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended December 31, 20XX December 31, 20XX December 31, 20XX

Issue:

- Should () continue to be exempt from tax under Internal Revenue Code (IRC) section 501(c)(4) as a social welfare organization?

Facts:

was incorporated in the State of on March 28, 20XX. The organization's Articles of Incorporation (AOI), Article 2, states the following purpose for which the corporation was formed:

"The purpose for which the corporation is organized is to erect an assembly hall, to provide public benefits to its members and community."

The organization's AOI, Article 5, provides the following dissolution clause:

"Upon dissolution of the corporation, the Board of Directors shall, after paying or making provision for the payment of all of the liabilities of the corporation, dispose of all its assets exclusively for the purposes of the corporation in such a manner, or to such organizations organized and operated exclusively for charitable, educational, religious or scientific purpose as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1939 (or the corresponding provision of any future United States Internal Revenue Laws) as the Board of Directors shall determine. Any such assets not disposed of shall be disposed of by the Superior Court of the county in which the principle office of the corporation is then located, exclusively for such purpose or to such organization or organizations, as said Court shall determine, which are organized and operated exclusively for such purpose."

According to Internal Revenue Service (IRS) records, the organization was granted tax-exempt status under IRC section 501(c)(4) effective March 28, 20XX. The organization has regularly filed Form 990 since being granted exempt status.

The following facts contained in this report were collected during an initial interview with the Treasurer of the organization conducted on April 24, 20XX. The Treasurer provided all records requested for the year ending December of 20XX. Also provided were all similar records pertaining to all years since incorporation, without request. The interview was held at the Treasurer's place of business and no tour of the organization was conducted as the corporation does not hold any facilities where daily operations take place.

was formed originally by members of the . The intent was to create the organization, acquire enough funds to purchase land and build an Assembly Hall, transfer all assets to the , and subsequently dissolve the organization. The assembly hall would be the location for various educational, recreational, and cultural programs to benefit the community.

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Application Process:

The organization originally applied for tax exempt status under IRC section 501(c)(3). Correspondence with the Determinations unit shows that the IRS suggested the organization would not qualify under IRC section 501(c)(3), but could qualify under IRC section 501(c)(4). Accordingly, the organization submitted Form 1024 to apply for exempt status under IRC section 501(c)(4).

Within the correspondence throughout the application process, the organization suggested it was going to transfer its assets to the . However, its original application states transfer of its assets would be to the . When asked to confirm which organization the assets would be transferred to, the Treasurer stated that the indication of the was an error, and assets would be transferred to the . The original determination to grant exemption under IRC section 501(c)(4) was based on the conclusion that assets would flow to another organization exempt under IRC section 501(c)(4). When the examiner requested documents to show would transfer its assets to an organization exempt from federal income tax under IRC section 501(c)(4), it was unable to provide any documents verifying the is exempt under any section of the IRC. Internal IRS records show the to have a Form 1120 filing requirement, indicating the receiving organization is not tax-exempt.

Operations & Finances:

The examining agent asked if the organization's activities have changed since it began, and asked for an explanation of the organization's activities for the year ending December 31, 20XX. The Treasurer explained that in 20XX, the organization originally received a significant amount of contributions and pledges (approximately \$). The Treasurer also stated that early in 20XX, the organization experienced a dramatic drop in contributions due to the state of the national economy. The Treasurer stated that the organization has not had any activity since the middle of 20XX. essentially stopped soliciting contributions, leaving the only activity of the organization to be its annual state filing with the , and its annual Form 990. No board meeting minutes are kept to show otherwise. The lack of activity has continued to the present day.

In an effort to provide as much information as possible, voluntarily provided records dating back to its incorporation without request by the examining agent. The following is a summary of its financial activity from incorporation to the present year.

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Savings Account #0		Checking Account #0		Checking Account Ending Balances	
Date	Deposit	Date	Deposit	Expenditure	12/31/20XX
4/3/20XX	\$	4/3/20XX	\$		\$
4/3/20XX	\$	4/4/20XX	\$1		\$
4/3/20XX	\$	4/18/20XX		\$	\$
Interest 20XX	\$:	5/11/20XX		\$:	\$:
Interest 20XX	\$:	7/7/20XX	\$:		\$:
Interest 20XX	\$1	7/7/20XX		\$	
12/9/20XX	\$	10/13/20XX		\$	
Interest 20XX	\$				\$
Interest 20XX	\$				\$:
					\$:
					\$:
					\$:

Based on statements made by the organization during the initial interview, the savings account deposits in April 20XX are from contributions to the organization. All other deposits to the savings account are solely from interest earned through the bank, aside from the 12/9/20XX deposit which is a contribution from the

Based on statements made by the organization during the initial interview, the checking account expenditures in 20XX are for the organization's efforts to solicit contributions. This includes printing, publishing, website registration, and other events held to encourage donations. The 20XX expenditures are for the application for the IRS application for exempt status (Form 1024), renewal fees, and accounting fees for assembling the Form 1024 package.

As is demonstrated by the financial activities of the organization, has become inactive since 20XX. It continues to exist on paper, but no significant activities have been conducted to further the exempt purpose of the organization. The Treasurer offered no concrete plans for future activities that would accomplish the exempt purpose of the organization.

The organization has no previous audit history.

Law:

Internal Revenue Code

Section 501(c)(4)(A)

Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the

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employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Section 501(c)(4)(B)

Subparagraph (A) shall not apply to an entity unless no part of the net earnings of such entity inures to the benefit of any private shareholder or individual.

Treasury Regulations

Section 1.501(c)(4)-1. Civic organizations and local associations of employees

(a) Civic organizations

(1) In general. —A civic league or organization may be exempt as an organization described in section 501(c)(4) if:

- (i) It is not organized or operated for profit; and
- (ii) It is operated exclusively for the promotion of social welfare.

(2) Promotion of social welfare

(i) In general. —An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements. A "social welfare" organization will qualify for exemption as a charitable organization if it falls within the definition of "charitable" set forth in paragraph (d)(2) of section 1.501(c)(3)-1 and is not an "action" organization as set forth in paragraph (c)(3) of section 1.501(c)(3)-1.

(ii) Political or social activities. —The promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. Nor is an organization operated primarily for the promotion of social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of its members, or is carrying on a business with the general public in a manner similar to organizations which are operated for profit. See, however, section 501(c)(6) and section 1.501(c)(6)-1, relating to business leagues and similar organizations. A social welfare organization that is not, at any time after October 4, 1976, exempt from taxation as an organization described in section 501(c)(3) may qualify under section 501(c)(4) even though it is an "action" organization described in section 1.501(c)(3)-1(c)(3)(ii) or (iv), if it otherwise qualifies under this section. For rules relating to an organization that is, after October 4, 1976, exempt from taxation as an organization described in section 501(c)(3), see section 504 and section 1.504-1.

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(b) Local associations of employees. —Local associations of employees described in section 501(c)(4) are expressly entitled to exemption under section 501(a). As conditions to exemption, it is required (1) that the membership of such an association be limited to the employees of a designated person or persons in a particular municipality, and (2) that the net earnings of the association be devoted exclusively to charitable, educational, or recreational purposes. The word "local" is defined in paragraph (b) of section 1.501(c)(12)-1. See paragraph (d)(2) and (3) of section 1.501(c)(3)-1 with reference to the meaning of "charitable" and "educational" as used in this section.

Government's Position:

Should () continue to be exempt from tax under Internal Revenue Code (IRC) section 501(c)(4) as a social welfare organization?

The government contends that does not operate as an organization exempt under IRC section 501(c)(4) for the following reasons:

1. The organization does not promote social welfare. The facts show that the operations have been nonexistent since mid-20XX, a four year lapse in any activity towards its purpose.
2. The organization's net earnings are not devoted exclusively to charitable, educational, or recreational purposes. Upon fulfilling its purpose of building an assembly hall, the assets will be transferred to a for-profit entity ().

An organization exempt under IRC section 501(c)(4) must operate "exclusively for the promotion of social welfare" which is further explained by the Regulations thus: being primarily engaged in promoting in some way the common good and general welfare of the people of the community.

Substantially all of contributions were secured in the year of 20XX. After 20XX, the organization's earnings have been almost solely from interest on the savings account where it holds the majority of its contributions. The Treasurer's admission that the organization has ceased soliciting funds for the ultimate goal of building an assembly hall further shows that is doing nothing to promote social welfare. If the organization were actively pursuing ways to accomplish the building of an assembly hall, the argument could be made that it is primarily engaged in promoting the general welfare of the community. However, there are no indications that the organization will acquire the means to build an assembly hall. Therefore, the organization is not promoting social welfare.

The plan for , as evidenced by its application for exempt status and the interview conducted by the examining agent, is to transfer the assets to the upon successful completion of building an assembly hall and then dissolve . IRS records confirm that the does not maintain a tax exempt status. In essence, all contributions to would flow to a currently for-profit corporation. The plan for this transaction would also conflict with the organization's dissolution clause which plainly states that its assets will be disposed of "to such organizations organized and operated exclusively for charitable, educational,

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religious or scientific purpose as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code." Based on the current plans, the organization's net earnings are not devoted exclusively to charitable, educational, or recreational purposes. Furthermore, the intent does not coincide with its own established AOI.

Taxpayer's Position:

At this time, the organization agrees with the findings of the examining agent and does not dispute that they are not operating within the context of an IRC section 501(c)(4) exempt organization.

Conclusion:

is not operating to promote social welfare as defined by the Treasury Regulations and Internal Revenue Code section 501(c)(4). During the years under examination, the organization has not fulfilled its obligation to operate primarily for civic betterment and social improvement. Instead, the organization has become inactive in its pursuit of such community benefits.

long-standing plan to dispose of its assets to a for-profit organization, does not coincide with its own Articles of Incorporation, and prevents the organization from devoting all of its net earnings exclusively to charitable, educational, or recreational purposes. The regulations specifically state that an organization described in IRC section 501(c)(4) may not be organized or operated for profit. While is not organized for profit, the intended recipient of its assets is not recognized by the IRS as an organization not operated for profit. Thus, fails to meet the standard.

should no longer qualify for exemption from federal income tax under IRC section 501(c)(4). The organization's exempt status should be revoked back to the tax period beginning the first day of the organization's fiscal year, January 1, 20XX.