



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
TEGE EO Examinations Mail Stop 4920 DAL
1100 Commerce St.
Dallas, Texas 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: October 12, 2016

Release Number: 201702040
Release Date: 1/13/2017
UIL Code: 501.03-00

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:

CERTIFIED MAIL – RETURN RECEIPT

Dear _____ :

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code. Our favorable determination letter to you dated June 20XX is hereby revoked and you are no longer exempt under section 501(a) of the Code effective January 1, 20XX.

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

Organizations described in IRC 501(c)(3) and exempt under section 501(a) must be both organized and operated exclusively for exempt purposes. You are operating for the substantial private benefit of your providers and members. Thus, you are not operating exclusively for charitable, educational, religious or scientific purposes.

Your activities do not meet the operational requirements for an IRC 501(c)(3) exemption. Although you provide some benefit to the public, a substantial purpose of yours is promoting the services of your members.

Based on the facts and circumstances presented, you do not qualify for recognition of exemption from federal income tax as an organization described in IRC 501(c)(3). You are not organized and operated exclusively for exempt purposes as set forth in IRC 501(c)(3). More than an insubstantial part of your activities is not in furtherance of exempt purposes under IRC 501(c)(3). You are not operated exclusively for public purposes. Your net earnings inure to the benefit of your providers and members, who are private individuals.

Contributions to your organization are no longer deductible under IRC §170 after January 1, 20XX.

You are required to file income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for the tax year ending December 31, 20XX, and for all tax years thereafter in accordance with the instructions of the return.

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

If you decide to contest this determination under the declaratory judgment provisions of section 7428 of the Code, a petition to the United States Tax Court, the United States Claims Court, or the district court of the United States for the District of Columbia must be filed before the 91st Day after the date this determination was mailed to you. Please contact the clerk of the appropriate court for rules regarding filing petitions for declaratory judgments by referring to the enclosed Publication 892. You may write to the United States Tax Court at the following address:

**United States Tax Court
400 Second Street, NW
Washington, DC 20217**

You also have the right to contact the Office of the Taxpayer Advocate. 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 taxpayeradvocate.irs.gov or call 1-877-777-4778. If you prefer, you may contact your local Taxpayer Advocate at:

**Internal Revenue Service
Office of the Taxpayer Advocate**

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

Sincerely,

**Margaret Von Lienen
Director, EO Examinations**

**Enclosures:
Publication 892**



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

Date:
August 9, 2016
Taxpayer Identification Number:

Form:

Tax year(s) ended:
December 31, 20XX
Person to contact/ ID number:

Contact numbers:
Toll Free
Long Distance
Fax:
Manager's name/ ID number:

Manager's contact number:

Response due date:
No response due.

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,



Margaret Von Lienen
Director, Exempt Organizations Examinations

Enclosures:
Report of Examination

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		20XX12

Date of Notice: August 9, 2016
Final Report

Issues:

Whether Section 501(c)(3) of the Internal Revenue Code? qualify for exemption under

Facts:

Organization was incorporated under the laws of the State of on February 21, 20XX. Per the organization's Articles of Incorporation, they were formed for the following purposes:

"Exclusively for charitable, educational, religious, or scientific purposes, within the meaning of 501(c)(3) of the Internal Revenue Code."

The attachment included with the Organization's Form 1023, received April 29, 20XX, contained a narrative description of the Organization's activities as requested on Part IV and is stated as follows:

"

"

In 20XX we obtained funding to perform system wide analysis of the readiness of our members to meet the needs of our local evolving healthcare transformation. In the coming years we will sponsor and implement forums to evaluate, research and plan for integration of and community efforts.

During the audit the Organization was asked on Form 4564, Information Document Request, dated January 2, 20XX for a detailed description of each of their activities conducted during the year under examination. Organization was asked to provide statement of revenues, expenses, assets and liabilities and an explanation regarding an expenditure of \$XX,XXX reported on line 13 of the Form 990EZ for tax year ending December 31, 20XX.

Review of your website identified your purpose as:

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-
-
-
-
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Reply from Organization dated January 20, 20XX states the purpose of is:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		20XX12

To serve as a collective voice for providers who are interested in being effective and useful partners in the transformation of the health care system and the operations of the
We are committed to the triple
aim of better health, better care and lower costs.

The members of the _____ recognizes that the changes in the health care system will require significant change from all health care providers and payers and the _____ members are ready to bring new ideas and leadership to this challenge including identifying new ways to leverage its resources and to create new pathways to each other's services.

During phone conversation of March 31, 20XX with _____ a question was asked, "What type of benefits do members of the organization receive?" Organization's response was members are given some sort of protection to continue to exist in health care system of both large and small providers. They can influence the rates and policies established by the CCO. Organization can speak on behalf of their members to the CCO's. Organization is also establishing a more effective member directory for the public use to find a provider.

Law:

§501(c)(3) Requires tax exempt entities 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.

§Reg 1.501(c)(3)-1(a) 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.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will not be regarded as operated exclusively for exempt purposes if more than an insubstantial part of its activities is not in furtherance of exempt purposes.

Section 1.501(c)(3)-1(d)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more exempt purposes 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.

The presence of a single substantial nonexempt purpose can destroy the exemption regardless of the number or importance of exempt purposes. *Better Bus. Bureau v. United States*, 326 U.S. 279, 283, 90 L. Ed. 67, 66 S. Ct. 112 (1945); *Am. Campaign Acad. v. Commissioner*, 92 T.C. 1053, 1065 (1989); see also *Old Dominion Box Co., Inc. v. United States*, 477 F.2d. 340 (4th Cir. 1973), cert. denied, 413 US 910 (1973) ("operating for the benefit of private parties who are not members of a charitable class constitutes a substantial nonexempt purpose"). 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 exempt purposes. *Am. Campaign Acad. v. Commissioner*, supra at 1065-1066.

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer		20XX12

Organizations Position:

No rebuttal at this time.

Government's Position:

Section 501(c)(3) of the Code sets forth two main tests for qualification for exempt status. An organization must be both organized and operated exclusively for purposes described in section 501(c)(3).

The Organizations Articles of Incorporation provided states the "corporation is exclusively for charitable, educational, religious, or scientific purposes, within the meaning of 501(c)(3) of the Internal Revenue Code" and the appropriate dissolution clause for a 501(c)(3). As a result satisfies the organizational test required by sections Section 1.501(c)(3)-1(b)(1)(i) of the Regulations.

However, does not meet the requirements of Section 1.501(c)(3)-1(c)(1) of the Regulations, which requires them to engage primarily in activities which accomplish one or more exempt purposes. Since they are operating for the substantial private benefit of their providers and members they are not operating exclusively for charitable, educational, religious or scientific purposes.

In analysis of the current description of activities, the organization's activities do not meet the operational requirements for a 501(c)(3) exemption. Although it provides some benefit to the public, a substantial purpose of the organization is promoting the services of the members

Conclusion:

Based on the facts and circumstances presented, you do not qualify for recognition of exemption from federal income tax as an organization described in section 501(c)(3) of the Code. You are not organized and operated exclusively for exempt purposes as set forth in section 501(c)(3).

Your net earnings inure to the benefit of your providers and members, who are private individuals.

As a result, we conclude that you are not operated exclusively for public rather than private purposes. We conclude based on the stated facts that you do not qualify for tax exemption because more than an insubstantial part of your activities is not in furtherance of exempt purposes.

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

Organization has signed the Form 6018 agreeing to Revocation of exemption, effective January 1, 20XX.

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