



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

[REDACTED]

[REDACTED]

Release Number: 202519011
Release Date: 05/09/2025
UIL Code: 501.03-00

Date:

February 14, 2025

Taxpayer ID number (last 4 digits):

[REDACTED]

Form:

[REDACTED]

Tax periods ended:

[REDACTED]

Person to contact:

Name: [REDACTED]

ID number: [REDACTED]

Telephone: [REDACTED]

Fax: [REDACTED]

Last day to file petition with United States
Tax Court:

[REDACTED]

CERTIFIED MAIL - Return Receipt Requested

Dear [REDACTED]

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 September 1, 2019. Your determination letter dated August 8, 2002, is revoked.

Our adverse determination as to your exempt status was made for the following reasons: You have not demonstrated that you are operated exclusively for exempt purposes within the meaning of 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**.

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.

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



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

[REDACTED]

[REDACTED]

Date:

09/30/2024

Taxpayer ID number:

[REDACTED]

Form:

[REDACTED]

Tax periods ended:

[REDACTED]

Person to contact:

Name:

[REDACTED]

ID number:

[REDACTED]

Telephone:

[REDACTED]

Fax:

[REDACTED]

Address:

[REDACTED]

Manager's contact information:

Name:

[REDACTED]

ID number:

[REDACTED]

Telephone:

[REDACTED]

Response due date:

[REDACTED]

CERTIFIED MAIL – Return Receipt Requested

Dear [REDACTED]

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.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

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.


Lynn A. Brinkley
Director, Exempt Organizations Examinations

Enclosures:

Form 886-A, Explanation of Items

Form 6018, Consent to Proposed Actions

Publication 1, Your Rights as a Taxpayer

Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status

Publication 3498, The Examination Process

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

Issue

Whether the [REDACTED] Inc's tax-exempt status should be revoked as a 501(c)(3) organization under the Internal Revenue Code (IRC) because more than an insubstantial amount of its activities is not in furtherance of an exempt purpose?

Facts

[REDACTED] ("the Organization") was incorporated in [REDACTED].

The Organization stated its purposes to be to conduct activities which are exclusively charitable and educational within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954. The Organization received tax exemption status as a charitable organization within the meaning of IRC Section 501(c)(3) and was classified as a publicly supported organization under IRC Sections 509(a)(1) and 170(b)(1)(A)(vi) in August of 2002.

The Organization receives financial support in the form of [REDACTED].

In the original Determinations Application submitted by the Organization, it stated the following in reference to financial support:

[REDACTED]

The President of the Organization, [REDACTED], also serves as managing director of a for-profit corporation called [REDACTED]. In 2007, Organization entered into a teaching contract with the [REDACTED]. It was signed by [REDACTED], as [REDACTED]. Although [REDACTED] is President of the Organization, he did not sign for the Organization, but rather it was signed by [REDACTED]. The contract states that [REDACTED] Inc engaged "the services of [REDACTED] to provide educational content for teaching events organized and produced by the [REDACTED]."

The Organization claims the contract is no longer effective. However, the Organization continues to pay Instructor Fees to the [REDACTED]. Between September 1, 2019 and August 31, 2020, the Organization paid the [REDACTED]. This was almost [REDACTED] of Organization's total revenue of [REDACTED] during this same period.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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[REDACTED]	[REDACTED]	[REDACTED]

The Organization's [REDACTED] studio closed in [REDACTED] and it no longer has programming there. The activities of the organization since then include teaching courses, workshops, and community events.

The Organization hosts a website [REDACTED]. The landing page mentions membership-based content for a "thriving, growing community of educators committed to enriching one-on-one work with students and clients." The copyright information at the bottom of the page says, [REDACTED]. All rights reserved." Underneath is a web link that states, [REDACTED]."

The linked site [REDACTED] promotes [REDACTED]. It states,

[REDACTED]

[REDACTED] All right reserved."

During the year under audit, the Organization executed contracts to provide [REDACTED] seminars for various for-profit [REDACTED] companies, including the [REDACTED]. The contracts' compensation terms both state there to be a "minimum fee guarantee: [REDACTED]

For a five-year period, including the year under examination, the Organization received the following support:

Calendar Year	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	Totals
Gifts, grants, contributions, and membership fees received as support. (Do not include any "unusual grants.")	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Tax revenues levied for the organization's benefit and either paid to or expended on its behalf	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
The value of services or facilities furnished by a governmental unit to the organization without charge	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the total support									
Public Support									
Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources									
Net income from unrelated business activities, whether or not the business is regularly carried on									
Other income. Do not include gain or loss from the sale of capital assets									
Total Support									
Gross receipts from related activities, etc.									

During the year under audit, the Organization signed a contract with [REDACTED]. In the section labeled "payment terms", it states that "all funds are remitted [REDACTED]". The same language could be found in another contract provided by the EO [REDACTED]. In the Organization's general ledger, payments were made by the entities to the Organization, then the Organization used the proceeds from these events to pay [REDACTED].

Under the terms of the contract, [REDACTED] was required to pay the Organization accordingly: [REDACTED]. Thus, the contract provided for a minimum payment guarantee plus a split of the profits. Nowhere in the contract, nor elsewhere, did the Organization establish that it provided financial assistance to those who cannot afford the seminars that it puts on under contract with these for-profit entities. This same language is used in another contract that the Organization provided for the for-profit [REDACTED], further supporting that the Organization appears to be operating for a commercial purpose rather than exclusively for exempt purposes.

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

Additionally, according to the books and records provided, as well as the filed Form 990, the Organization did not receive any charitable contributions or donations for the year under audit. All the revenue received was program service revenue, which is derived from the Organization contracting with for-profit companies to provide educational seminars on and via the Organization. Per Forms 990 for tax periods , all the income generated was from program service revenue.

The Organization did not contract the teaching services of any other organizations or instructors besides .

Law

I.R.C. Section 501(c)(3) generally

Section 501(a) exempts organizations described in Section 501(c) of the Code from federal income taxation.

Section 501(c)(3) of the Code exempts from federal income tax organizations organized and operated exclusively for charitable, educational, and other exempt purposes, provided that no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the regulations, organizational and operations tests, provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(c)(1) of the 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 IRC 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.

Section 1.501(c)(3)-1(c)(2) of the regulations provides that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part inure to the benefit of private shareholders of individuals.

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

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family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Private Foundations

Section 509(a)(1) of the Code provides that the term “private foundation” means a domestic or foreign organization described in section 501(c)(3) other than an organization described in section 170(b)(1)(A) other than clauses (vii) or (viii). This includes organizations described in Section 170(b)(1)(A)(vi) of the Code that normally receive a substantial part of its support from a governmental unit or from direct or indirect contributions from the general public.

Treasury Regulations (Treas. Reg.) 1.170A-9(e)(2) further define an organization as publicly supported if it receives 33 1/3 percent of its total support from contributions made by the general public.

Section 509(a)(2) of the Code excludes from the term “private foundation” an organization that normally receives more than one-third of its support in each taxable year from any combination of gifts, grants, contributions, or membership fees, and gross receipts from admissions, sales of merchandise, performance of services that is related to the exempt function and does not receive more than one-third of its support in each taxable year from the sum of gross investment income and unrelated business income.

Treas. Reg. 1.170A-9(e)(7)(ii) states that organizations dependent primarily on gross receipts from related activities will not be treated as satisfying the 33 1/3 percent-of-support test under 509(a)(1) if it receives almost all of its support from gross receipts from related activities and an insignificant amount of its support from contributions made by the general public.

Operational Test

I.R.C. § 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 (but only if no part of its activities involve the provision of athletic facilities or equipment), 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 and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

Treas. Reg. § 1.501(c)(3)-1(a)(1) provides that in order to be a tax-exempt organization under Code section 501(c)(3), an organization must be organized and operated exclusively for one or more exempt purposes.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Treasury 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 I.R.C. § 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 operational test of Section 1.501(c)(3)-1(c)(1) of the regulations is designed to ensure that the organization's resources and activities are devoted to furthering exempt purposes. The operational test examines the actual purpose for the organization's activities and not the nature of the activities or the organization's statement of purpose. What an organization's purposes are and what purposes its activities support are questions of fact. To pass the operational test, the organization must be primarily engaged in activities which accomplish one or more of the exempt purposes specified in Section 501(c)(3) and the net earnings must not be distributed in whole or in part for the benefit of private shareholders or individuals. American Campaign Academy v. Commissioner, 92 T.C. 1053 (1989).

The existence of a single nonexempt purpose, if substantial in nature, will cause failure of the operational test, regardless of the number or importance of truly exempt purposes. Better Business Bureau v. United States, 326 U.S. 279 (1945). See also Stevens Bros. Foundation, Inc. v. Commissioner, 324 F.2d 633, 638 (8th Cir. 1963), cert denied, 376 U.S. 969 (1964) (if there is present in an organization's operations a single noncharitable purpose substantial in nature, though it may have other truly and important charitable purposes, it is not entitled to be exempt).

Private Benefit

An organization is not organized or operated exclusively for an exempt purpose unless it serves a public rather than a private interest. To meet this requirement, 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. **Treas. Reg. 1.501(c)(3)-1(d)(ii)**

Treas. Reg. 1.501(c)(3)-1(d)(iii) Examples. The following examples illustrate the requirement of paragraph (d)(1)(ii) of this section that an organization serve a public rather than a private interest:

Example 1. (i) O is an educational organization the purpose of which is to study history and immigration. O's educational activities include sponsoring lectures and publishing a journal. The focus of O's historical studies is the genealogy of one family, tracing the descent of its present members. O actively solicits for membership only individuals who are members of that one family. O's research is directed toward publishing a history of that family that will document the pedigrees of family members. A major objective of O's research is to identify and locate living descendants of that family to enable those descendants to become acquainted with each other.

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

(ii) O's educational activities primarily serve the private interests of members of a single family rather than a public interest. Therefore, O is operated for the benefit of private interests in violation of the restriction on private benefit in paragraph (d)(1)(ii) of this section. Based on these facts and circumstances, O is not operated exclusively for exempt purposes and, therefore, is not described in section 501(c)(3).

Example 2. (i) O is an art museum. O's principal activity is exhibiting art created by a group of unknown but promising local artists. O's activity, including organized tours of its art collection, promotes the arts. O is governed by a board of trustees unrelated to the artists whose work O exhibits. All of the art exhibited is offered for sale at prices set by the artist. Each artist whose work is exhibited has a consignment arrangement with O. Under this arrangement, when art is sold, the museum retains 10 percent of the selling price to cover the costs of operating the museum and gives the artist 90 percent.

(ii) The artists in this situation directly benefit from the exhibition and sale of their art. As a result, the principal activity of O serves the private interests of these artists. Because O gives 90 percent of the proceeds from its sole activity to the individual artists, the direct benefits to the artists are substantial and O's provision of these benefits to the artists is more than incidental to its other purposes and activities. This arrangement causes O to be operated for the benefit of private interests in violation of the restriction on private benefit in paragraph (d)(1)(ii) of this section. Based on these facts and circumstances, O is not operated exclusively for exempt purposes and, therefore, is not described in section 501(c)(3).

Example 3. (i) O is an educational organization the purpose of which is to train individuals in a program developed by P, O's president. The program is of interest to academics and professionals, representatives of whom serve on an advisory panel to O. All of the rights to the program are owned by Company K, a for-profit corporation owned by P. Prior to the existence of O, the teaching of the program was conducted by Company K. O licenses, from Company K, the right to conduct seminars and lectures on the program and to use the name of the program as part of O's name, in exchange for specified royalty payments. Under the license agreement, Company K provides O with the services of trainers and with course materials on the program. O may develop and copyright new course materials on the program but all such materials must be assigned to Company K without consideration if and when the license agreement is terminated. Company K sets the tuition for the seminars and lectures on the program conducted by O. O has agreed not to become involved in any activity resembling the program or its implementation for 2 years after the termination of O's license agreement.

(ii) O's sole activity is conducting seminars and lectures on the program. This arrangement causes O to be operated for the benefit of P and Company K in violation of the restriction on private benefit in paragraph (d)(1)(ii) of this section, regardless of whether the royalty payments from O to Company K for the right to teach the program are reasonable. Based on these facts and circumstances, O is not operated exclusively for exempt purposes and, therefore, is not described in section 501(c)(3).

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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In Revenue Ruling (Rev. Rul.) 76-152, 1976-1 C.B. 151, there was found to be substantial private benefit to local artists from an organization which was formed to promote community understanding of modern art trends. The organization selected works of the local artists for exhibit and possible sale at its public gallery. The organization paid 90% of the sale proceeds to the artists.

In Est of Hawaii v Commissioner of Internal Revenue, 71 T.C. 1067, 1080-81 (1979), aff'd, 647 F.2d 170 (9th Cir. 1981), the organization engaged in activities relating to 'est' programs involving training, seminars, lectures, etc., in areas of intra-personal awareness and communication. Such activities were conducted under licensing arrangements with for-profit corporations. The Service found that the petitioner's activities, although educational in nature, served the commercial purposes of the for-profit corporations and petitioner was therefore not operated exclusively for exempt purposes within the meaning of sec. 501(c)(3), I.R.C. 1954.

Private benefit does not require a finding that payments for goods or services be unreasonable or exceed fair market value. For example, in Est of Hawaii v. Commissioner, the Tax Court stated:

Nor can we agree with petitioner that the critical inquiry is whether the payments made to International were reasonable or excessive. Regardless of whether the payments made by petitioner to International were excessive, International and EST, Inc., benefited substantially from the operation of petitioner. *Id.*

Similarly, in Church by Mail v. Commissioner, 765 F. 2d 1387 (9th Cir. 1985), aff'g TCM 1984-349 (1984), the Tax Court found it unnecessary to consider the reasonableness of payments made by the applicant to a business owned by its officers. The 9th Circuit Court of Appeals, in affirming the Tax Court's decision, stated:

The critical inquiry is not whether particular contractual payments to a related for-profit organization are reasonable or excessive, but instead whether the entire enterprise is carried on in such a manner that the for-profit organization benefits substantially from the operation of the Church.

Where the driving force behind the creation and operation of an organization was the potential for substantial ongoing private profit to the organizers, the organization was found not to operate exclusively for exempt purposes under section 501(c)(3). Copyright Clearance Center, Inc. v. Commissioner, 79 T.C. 793 (1982). In that case, the court distinguished cases in which the financial benefits to private interests were of relatively minor consequence in respect to the basic exempt objectives of the organization and found that the financial benefits to the organizers from organization's operations were not only frequent and concrete, but also potentially of considerable magnitude. *Id.*

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When a for-profit corporation benefits substantially from the manner in which the activities of a related tax-exempt organization are carried on, the organization is not operated exclusively for exempt purposes within the meaning of I.R.C. § 501(c)(3), even if it furthers other exempt purposes. International Postgraduate Medical Foundation v. Commissioner, T.C. Memo, 1989-36. In that case, the organization spent 90% of its revenue on production and distribution of brochures which emphasized the recreational sightseeing activities of the tours during which its educational seminars were offered. The primary benefactor of its operations was found to be the for-profit tour company that provided air and land travel for the seminars. *Id.*

When an organization conducts a business in a commercial manner, that fact weighs heavily against exemption. Living Faith, Inc. v. Commissioner, 950 F.2d 365, 373 (7th Cir. 1991), aff'g T.C. Memo. 1990-484. "The particular manner in which an organization's activities are conducted, the commercial hue of those activities, competition with commercial firms, and the existence and amount of annual or accumulated profits, are all relevant evidence in determining whether an organization has a substantial nonexempt purpose." *Id.* at 372. Similarly, when an organization engages in a substantial fee-for-service or other business activity and the activity does not further the organization's exempt purpose, the organization is not operated exclusively for an exempt purpose. Sec. 1.501(c)(3)-1(c)(1), Income Tax Regs.; see Partners in Charity, Inc. v. Commissioner, 141 T.C. at 168-169.

Where a non-profit corporation that purported to serve recognized charitable class of the elderly, but did not provide burial benefits without regard to members' ability to pay funeral expenses or establish that membership fees were nominal charges, and the organization operated in a fee-for-service manner, and it did not serve a public benefit, as it did not provide burial benefits to nonmembers of the community and did not provide subsidized due program, it was found not to operate exclusively for one or more exempt purposes. Korean-Am. Senior Mut. Ass'n, Inc. v. Commissioner, T.C. Memo 2020-129.

Government's Position

Based on the application of the law to the facts described above, the Organization has not demonstrated that it is operated exclusively for exempt purposes within the meaning of section 501(c)(3).

The Organization operated for the substantial non-exempt purpose of providing private benefits to the for-profit [REDACTED]. For the tax year under examination ([REDACTED]), the for-profit [REDACTED] was paid [REDACTED] of the Organization's total revenue of [REDACTED], for providing teaching services exclusively through [REDACTED].

The facts are similar to those in Est of Hawaii v. Commissioner, discussed above, in which the petitioner's activities, although educational in nature, served the commercial purposes of the for-profit corporation and petitioner was therefore not operated exclusively for exempt purposes within the meaning of sec. 501(c)(3). Here, although the [REDACTED] seminars were educational in nature, the

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

for-profit [REDACTED] with whom the exempt organization contracted to provide such activities substantially benefitted from the operation of the exempt organization.

The relationship between the Organization and the [REDACTED], and the fees paid to the [REDACTED] by the Organization for the services of [REDACTED] are very similar to those in Example 3 of Treas. Reg. 1.501(c)(3)-1(d)(iii). In that example, O is an educational organization the purpose of which is to train individuals in a program developed by P, O's president. All of the rights to the program are owned by Company K, a for-profit corporation owned by P. Per an agreement, Company K provides O with the services of trainers and with course materials on the program. O's sole activity is conducting seminars and lectures on the program. This arrangement causes O to be operated for the benefit of P and Company K in violation of the restriction on private benefit in paragraph (d)(1)(ii) of this section, regardless of whether the royalty payments from O to Company K for the right to teach the program are reasonable.

The facts are also similar to Revenue Ruling (Rev. Rul.) 76-152, 1976-1 C.B. 151, in which there was found to be substantial private benefit to local artists from an organization which was formed to promote community understanding of modern art trends. In that case, the organization paid 90% of the sale proceeds from its public gallery to the artists. Here, almost 80% of the total revenue was paid to the [REDACTED].

The Organization also operated for a substantial commercial purpose. The same services offered by [REDACTED] for-profit [REDACTED] were being marketed through the Organization. The facts are similar to those in Korean-Am. Senior Mut. Ass'n, Inc. v. Commissioner, discussed above. The [REDACTED] seminars, like the burial benefits in that case, were not provided without regard to attendees' ability to pay nor was it established that the seminar fees were nominal charges. The organization operated in a fee-for-service manner, and it did not serve a public benefit, as it did not provide educational services to non-paying members of the community and did not provide a subsidized program.

The Organization's website promotes the teachings of [REDACTED] and directs visitors to his site at [REDACTED], which by the trademark information, appears to be hosted by the [REDACTED]. The Organization provides fee-based [REDACTED] seminars and fee-based materials on its website. It receives all revenue from fee-based services, not publicly funded sources such as donations. The Organization paid [REDACTED] of their revenue to the [REDACTED] teaching services. The Organization's operations include two substantial nonexempt purposes : (1) private benefit for [REDACTED] and [REDACTED] and (2) commercial purposes.

Taxpayer's Position

The Government's position has not been discussed with the taxpayer as of this report.

Conclusion

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

Evidenced from the books and records and the responses received about the operations of the EO:

1. The Organization's operations with and payments to the [REDACTED] during the year under audit constituted private benefit to the [REDACTED] and its managing director [REDACTED].
2. The Organization was operating for substantially commercial purposes.

[REDACTED] should be revoked as an exempt organization under Section 501(c)(3) of the Code with an effective date of September 1, 2019.

Alternative Issue

In the alternative, if the Organization continues to qualify for exemption under IRC Section 501(c)(3), should its foundation status be reclassified from IRC 509(a)(1) and 170(b)(1)(A)(vi) to IRC 509(a)(2)?

Law

Section 509(a)(1) of the Code provides that the term "private foundation" means a domestic or foreign organization described in section 501(c)(3) other than an organization described in section 170(b)(1)(A) other than clauses (vii) or (viii). This includes organizations described in Section 170(b)(1)(A)(vi) of the Code that normally receive a substantial part of its support from a governmental unit or from direct or indirect contributions from the general public.

The Treasury Regulations (Treas. Regs.) section 1.170A-9(e)(2) further define an organization as publicly supported if it receives 33 1/3 percent of its total support from contributions made by the general public.

Section 509(a)(2) of the Code excludes from the term "private foundation" an organization that normally receives more than one-third of its support in each taxable year from any combination of gifts, grants, contributions, or membership fees, and gross receipts from admissions, sales of merchandise, performance of services that is related to the exempt function and does not receive more than one-third of its support in each taxable year from the sum of gross investment income and unrelated business income.

Treas. Regs. section 1.170A-9(e)(7)(ii) states that organizations dependent primarily on gross receipts from related activities will not be treated as satisfying the 33 1/3 percent-of-support test under 509(a)(1) if it receives almost all of its support from gross receipts from related activities and an insignificant amount of its support from contributions made by the general public.

Government's Position

As shown in the five-year period income sources chart set forth in the facts section above, the Organization did not receive any public contributions or donations in four out of five years. The

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Organization receives all of its income from program service revenue in four out of the five years. Treas. Regs. section 1.170A-9(e)(7)(ii) states that organizations dependent primarily on gross receipts from related activities will not be treated as satisfying the 33 1/3 percent-of-support test under 509(a)(1) if it receives almost all of its support from gross receipts from related activities and an insignificant amount of its support from contributions made by the general public.

Taxpayer's Position

The Government's position has not been discussed with the taxpayer as of this report.

Conclusion

In the event that its exempt status is not revoked, [REDACTED] should be reclassified as an exempt organization under Internal Revenue Code Sections 509(a)(1) and 170(b)(1)(A)(vi) to IRC Section 509(a)(2) with an effective date of September 1, 2019.