



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

501.03-00

Date: September 14, 2011

Release Number: 201149035

Release Date: 12/9/2011

LEGEND

ORG - Organization name

XX - Date Address - address

Country - country

Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:

(Phone)

(Fax)

ORG

ADDRESS

CERTIFIED MAIL

Dear

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code (the Code). Our favorable determination letter to you dated May 19, 19XX, 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]:

Your primary activities since your inception have consisted of product ordering and shipping services to Country and Country, which are activities not accomplishing an exempt purpose. In addition, you also operated a money transfer service to areas of the former Country, which is also an activity that does not further an exempt purpose. I.R.C. § 501(c)(3) requires organizations to operate exclusively for an exempt purpose, which includes having a primary activity accomplishing exempt purposes. See Treas. Reg. § 1.501(c)(3)-1(a). Section 501(c)(3) precludes Federal income tax exemption if more than an insubstantial part of the activities is not in furtherance of an exempt purpose. See Treas. Reg. § 1.501(c)(3)-1(c)(1). As such, you are not an organization described in section 501(c)(3).

Contributions to your organization are no longer deductible.

You are required to file income tax returns on Form 1120. If you have not

already filed these returns and the examiner has not provided you instructions for converting your previously filed Form(s) 990 to Form(s) 1120, you should file these income tax returns with the appropriate Service Center for the tax year[s] 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, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: United States Tax Court, the United States Court of Federal Claims, or the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed before the 91st day after the date this determination was mailed to you if you wish to seek review of our determination. Please contact the clerk of the respective court for rules and the appropriate forms regarding filing petitions for declaratory judgment by referring to the enclosed Publication 892. Please note that the United States Tax Court is the only one of these courts where a declaratory judgment action can be pursued without the services of a lawyer. You may write to the courts at the following addresses:

You also have the right to contact the Office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal Appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have 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:

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

Sincerely,

Nanette M. Downing
Director, EO Examinations

Enclosures:

Publication 892
Form 6018, Consent to Proposed Adverse Action

Internal Revenue Service

Department of the Treasury
Internal Revenue Service
TE/GE Exempt Organizations Examinations
915 Second Ave. M/S W540
Seattle, WA 98174-1081

Date: April 29, 2011

ORG
ADDRESS

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Certified Mail - Return Receipt Requested

Dear

We have enclosed a copy of our report of examination explaining why we believe revocation of your exempt status under section 501(c)(3) of the Internal Revenue Code (Code) is necessary.

If you accept our findings, take no further action. We will issue a final revocation letter.

If you do not agree with our proposed revocation, you must submit to us a written request for Appeals Office consideration within 30 days from the date of this letter to protest our decision. Your protest should include a statement of the facts, the applicable law, and arguments in support of your position.

An Appeals officer will review your case. The Appeals office is independent of the Director, EO Examinations. The Appeals Office resolves most disputes informally and promptly. The enclosed Publication 3498, *The Examination Process*, and Publication 892, *Exempt Organizations Appeal Procedures for Unagreed Issues*, explain how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

You may also request that we refer this matter for technical advice as explained in Publication 892. If we issue a determination letter to you based on technical advice, no further administrative appeal is available to you within the IRS regarding the issue that was the subject of the technical advice.

If we do not hear from you within 30 days from the date of this letter, we will process your case based on the recommendations shown in the report of examination. If you do not protest this proposed determination within 30 days from the date of this letter, the IRS will consider it to be a failure to exhaust your available administrative remedies. Section 7428(b)(2) of the Code provides, in part: "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted its administrative remedies within the Internal Revenue Service." We will then issue a final revocation letter. We will also notify the appropriate state officials of the revocation in accordance with section 6104(c) of the Code.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have 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:

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,

Cathy Tai

Cathy Tai
Internal Revenue Agent

Enclosures:
Publication 892
Publication 3498
Report of Examination

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 20XX12 20XX12

LEGEND

ORG - Organization name XX - Date Address - address City - city
 State - state President - president website - website Country - country
 DIR-1 through DIR-36 = 1st through 36th DIR

Issue:

Is ORG operating for charitable purposes as described in section 501(c)(3) of the Internal Revenue Code?

Facts:

ORG was incorporated on March 2, 19XX.

The Form 1023 was signed by the organization on April 27, 19XX.

In Part II of Form 1023, Activities and Operational Information, it stated the following:

- A. Purpose for ORG is to gather clothing, food, medicine, etc. and to ship it to the needy in Country and Country.
- B. This Organization is just starting its activity.
- C. The activity will be conducted by the directors & members of this organization in the State of State.

Internal Revenue Service granted tax exempt status to ORG on September 3, 19XX.

Articles of Incorporation:

Article 9(A) of the Articles of Incorporation provided that "This organization is organized exclusively for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code."

Website:

The organization's website address is website.

The organization's website provides 4 different sections: Home Page, Order Form, Destinations, and Contact Us.

Home Page

History:

ORG a nonprofit organization was established in February of 19XX by collecting clothes, food and medical equipment to assist the suffering communities of the former Country. Over the years we have expanded our branches to State and State and to the republics of the former Country such as Country, Country, Country, Country, Country and Country.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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We have organized rehabilitation centers, nursing facilities for elders orphanages and facilities for homeless people in the capitals of the republics mentioned above. In addition we assist low income families with food and clothing so the children can finish their education and have a better future. Average family in Country has eight to fifteen children.

Values:

- Friendly and positive environment
- Demonstrate respect for differences
- Foster innovation and creativity
- Show honesty, fairness, compassion, integrity and accountability in all interactions
- Maintain safe, functional and adaptive facilities

Vision:

Our belief is to help people become economically self-sufficient so they can have a better future. The assistance we provide speaks loudly of the United States as an independent and human oriented country.

Mission:

Help people to help themselves. Support and encourage people in the former Country to become economically independent.

Family to Family:

Families in the United States helping former Country families during the times of transformation from communism to open market economy.

Order Form

Products can be order directly from ORG to Country, Country, Country, Country and Country.

Sender's Last and First Name:		Tel:()		
	Address:			
Receiver's Full Name:		Tel:()		
Product Name:	lb.	Suggestion donation		Donation
		Country, Country	Country, Country	Country
Rice	50			
Flour	50			
Grill oil	35			
Vegetable oil	20			
Macaroni	24			

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 20XX12 20XX12

Buck wheat	25				
Clothes detergent	32				
Chicken & beef soup	84 packets	\$25	\$50	\$30	

Products from Country only

Product Name:	lb.	Country	Quantity	Donation
Toasted buck wheat	55 lb.			
Sugar	110 lb.			
Beef stew (525g)	24 cans			
Barley	55 lb.			
Millet	55 lb.			
Pearl barley	55 lb.			

Pack #1 Country \$	Pack #2 Country \$	Pack #3 Country \$
- Buck wheat 20lb. - Sugar 20lbs - Beef stew 12 (525g) cans	- Buck wheat 10lb. - Rice 10lb. - Sugar 10lb. - Macaroni 9lb. - Vegetable oil 2L - Beef stew 12 (525g) cans	- Buck wheat 10lb. - Sugar 10lb. - Flour 7lb. - Vegetable oil 2L - Macaroni 9lb. - Rice 10lb.

Please note: The Country products listed above are located at the warehouses in Country. Orders are conducted by fax four times a month upon arrival of the first container with the packages. The packages are received much quicker as this method speeds up the process. For Country, Country, Country and Country the products are sent when the container is filled up. ORG will mail the sales receipt to the sender, so it is important that you fill out the order form and send it with the check or money order to ORG.

Destinations

We can help you send your packages to many Republics of the former USSR. Please click on the country below to see detailed locations.

[[Country](#)] [[Country](#)] [[Country](#)] [[Country](#)] [[Country](#)]

Amount of Donation

- Country & Country \$0. per pound
- Country, Siberia & Country \$0 per pound
- Country \$0 per pound

Note

- up to 30 lbs-\$
- up to 30 lbs-\$
- Up to 30 lbs- \$

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 20XX12 20XX12

Containers are being delivered on a daily basis to Country and Country. Time frame delivery to Country is 6-8 weeks from the day you leave your package with ORG. To Country, Country and Country is 8-12 weeks from the date of container's departure.

Contact Us

We provide mailing services from several different destinations. Please contact the location closest to you for additional assistance.

City, State Headquarters

ORG
Address,
City, STATE

Driving Directions to City Office

MAP DELETED

Mailing Address

Address
City, STATE

Phone: Phone

Fax: Fax

website

For more information

Contact Name: President

Phone:

OTHER LOCATIONS

State State		
DIR-1 Address City, State Phone, Fax	DIR-2 Address City, State Phone, Fax	DIR-3 Address City, State Phone, Fax
DIR-8 Address City, State Phone, Fax		
State State		
DIR-4 Address City, State Phone, Fax	DIR-5 Address City, State Phone, Fax	DIR-6 (exit 256) Address City, State Phone, Fax
DIR-7 Address City, State Phone, Fax	DIR-9 (Exit 186) Address City, State Phone, Fax	DIR-10 Address City, State Phone, Fax
DIR-11 Address	DIR-12 Address	DIR-13 Address

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 20XX12 20XX12

<i>City, State Phone, Fax</i>	<i>City, State Phone, Fax</i>	<i>City, State Phone, Fax</i>
DIR-14 Address <i>City, State Phone, Fax</i>	DIR-15 Address <i>City, State Phone, Fax</i>	DIR-16 Address <i>City, State Phone, Fax</i>
DIR-17 Address <i>City, State Phone, Fax</i>	DIR-18 Address <i>City, State Phone, Fax</i>	DIR-19 Address <i>City, State Phone, Fax</i>
DIR-20 Address <i>City, State Phone, Fax</i>	DIR-21 Address <i>City, State Phone, Fax</i>	DIR-22 Address <i>City, State Phone, Fax</i>
DIR-23 Address <i>City, State Phone, Fax</i>	DIR-24 Address <i>City, State Phone, Fax</i>	DIR-25 Address <i>City, State Phone, Fax</i>
State State		
DIR-26 Address <i>City, State Phone, Fax</i>		
State State		
DIR-27 Address <i>City, State Phone, Fax</i>	DIR-28 Address <i>City, State Phone, Fax</i>	DIR-29 Address <i>City, State Phone, Fax</i>
DIR-30 DIR-31 Address <i>City, State Phone, Fax</i>	DIR-32 Address <i>City, State Phone, Fax</i>	DIR-33 Address <i>City, State Phone, Fax</i>
DIR-34 (Address <i>City, State Phone, Fax</i>	DIR-35 Address <i>City, State Phone, Fax</i>	DIR-36 Address <i>City, State Phone, Fax</i>

Form 990:

Line 1, Part III of the Form 990 provided a brief description of the organization's mission. It stated, "CHARITABLE RELIEF IN THE FORM OF THE COLLECTION, PURCHASE AND FORWARDING OF

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended 20XX12 20XX12

FOOD, CLOTHING, CASH AND MEDICAL SUPPLIES TO NATIONS, INDIVIDUALS AND PEOPLE GROUPS THROUGHOUT THE WORLD."

The Form 990 filed by ORG for the years ended December 31, 20XX and 20XX revealed the following:

1. Revenue:

The gross revenue received by ORG for the years 20XX and 20XX as follows:

	20XX	20XX
Contribution and Grants		

2. Expenses:

The expenses of ORG for the years 20XX and 20XX are shown below:

	20XX	20XX
Compensation		
Other salaries and wages		
Payroll taxes		
Legal		
Accounting		
Advertising and promotion		
Office expenses		
Occupancy		
Travel		
Depreciation and depletion		
Insurance		
	20XX	20XX
Trucking Costs		
Postage and Shipping		
Charitable Supplies - Food		
Charitable Supplies - Clothing		
Charitable Supplies - Medical		
All other expenses		

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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3. Activities:

The organization has three different activities: food bank, product orders and shipping services; in addition to providing money transfer services, which was discontinued in early 20XX.

Product Ordering Service

Products from US: ORG provides food supplies and clothes detergents for the shippers who want to purchase and ship the supplies to the areas of former Country.

Products from Country: ORG also allows its customers to order the products in Country. Customers can order the products in Country and the goods will be shipped locally to the individuals who live in Country.

Shipping Service

ORG provides shipping service for people who want to ship the packages/boxes to the areas of former Country.

The organization also provides the packages/boxes drop locations:

- 4 locations in the State of State: City, City, City and City
- 21 locations in the State of State: City, City, City, City, City (3 locations), City (2 locations), City, City, City, City, City (2 locations), City, City (2 locations), and City (2 locations).
- 1 location in the State of State: City
- 9 locations in the State of State: City, City, City, City, City (2 locations), City, City, and City.

The packages/boxes were collected in those package/box drop locations. The organization had two trucks to pick up the dropped boxes in those locations each week.

The following pictures were taken when the employees and volunteers were unloading the boxes which were collected from different box dropping locations.

PICTURES DELETED

Almost each week, the organization arranged a 40' container to ship to Country. The following pictures were when the employees and volunteers were loading the boxes to the container.

Money Transfer Service

During the years under examination, the organization provided a money transfer service for its customers who wanted to wire funds to the individuals who lived in the areas of former Country.

In early 20XX, the organization made a decision to discontinue the money transfer service.

Food Bank

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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ORG conducts the services for the State Food Bank. The organization distributes the food provided by the State Food Bank on every 3rd Tuesday (10:00 am – 11:00 am) and every 4th Thursday (9:30 am – 10:30 am) every month.

LAW:

Section 501(c)(3) of the Internal Revenue Code exempts from federal income tax, organizations organized and operated exclusively for religious, charitable, scientific, or educational purposes whereby no part of the net earnings 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 intervene on behalf of (or in opposition to) any candidate for public office.

Section 1.501(c)(3)-1 of the federal income tax 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 purposes specified in such section. If an organization fails to meet either the organizational or the operational test, it is not exempt. An organization is organized exclusively for one or more exempt purposes only if its articles of the organization as defined in subparagraph (2) of this paragraph: (a) Limit the purposes of such organization to one or more exempt purposes; and (b) Do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.

Section 1.501(c)(3)-1(c)(1) of the Regulations states that an organization will be regarded as "operated exclusively" for one or more purposes only if it engages primarily in activities which accomplish one or more such exempt purposes specified in section 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.

Revenue Ruling 64-182, 1964-1 C. B. 186 holds that an organization is deemed to meet the primary test of section 1.501(c)(3)-1 of the Regulations and to be entitled to exemption from Federal income tax as a corporation organized and operated exclusively for charitable purposes within the meaning of section 501(c)(3) of the Code where it is shown to be carrying on through such contributions and grants, a charitable program commensurate in scope with its financial resources.

Government's Position:

Based on the facts of the examination, the organization does not qualify for exemption, since the majority of the services conducted by the organization are regularly carried on as business activities and not substantially related to furthering the exempt purpose of the organization.

The organization conducted four (4) different activities during the years 20XX and 20XX: products ordering service, money transfer service, shipping service, and State Food Bank service.

The organization regularly conducts these activities during its business hours, except the money transfer service, which was discontinued in late 20XX. Its business hours are: Monday through Friday from 10:00 am to 6:00 pm and Saturday from 10:00 am to 1:00 pm.

Product Ordering Service:

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For convenience to its customers, the organization provides food products such as rice, flour, oil, wheat, etc. for its customers to order and ship to the area of the former Country.

The products purchased by its customers, were packed and shipped to individual recipients in the area of former Country.

The organization also provided food products for its customers to purchase in the U.S. Then the products were locally shipped to individual recipients in the Country.

The prices of food products were determined by the wholesale cost of the product, shipping fees, custom fees, delivery, State donations, plus 10%~20% operating cost.

The organization regularly conducts the product ordering service during its business hours.

It has been determined that the activity of the product ordering service is a business activity, regularly carried on, and not substantially related to furthering the exempt purpose of the organization.

Shipping Service:

ORG provides shipping service for people who want to ship the packages/boxes to areas of the former Country.

The organization has package/box drop locations located in the states of State, State, State, and State, including the organization's headquarters in City, State. The organization had two trucks to pick up the packages/boxes and bring back those packages/boxes to the City headquarters facility.

The organization has a container shipped to Country almost every week. It also has a container shipped to Country every month.

The organization received \$ of gross shipping revenue in the year 20XX, which is the more than the revenue reported in the Form 990. This is because the organization reported net revenue rather than gross on the Form 990.

During the field visit, the president of the organization, President, explained to the examiner that most of the packages/boxes collected from churches were individually packed and addressed already. The churches decided where those boxes were to be shipped and he was not the one who decided who the recipients of those boxes would be. He just collected the boxes and shipped them to the recipients.

During the field visit, the examiner also saw many Country-speaking customers coming in and shipping the packages/boxes in the organization's home office in City, State. It was very busy during the afternoon hours.

During the years 20XX and 20XX, the organization shipped a total of 40,349 and 33,921 boxes, respectively. It was the major activity of the organization during the years 20XX and 20XX.

The organization regularly conducts the shipping service during its business hours.

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It has been determined that the activity of shipping service is a business activity, regularly carried on, and not substantially related to furthering the exempt purpose of the organization.

Money Transfer Service:

The organization conducted a money transfer service during its business hours in the years 20XX and 20XX. Customers would wire funds from the U.S. to areas of the former Country. On October 18, 20XX, the IRS and United States Attorney's made a seizure against the organization due to BSA/Structuring/ Money Laundering. The money transfer service was discontinued after the seizure.

It has been determined that the activity of money transfer service was a business activity, regularly carried on, and not substantially related to furthering the exempt purpose of the organization.

Food Bank Service

ORG conducts State Food Bank services. The organization distributes the foods provided by the State Food Bank for two hours each month.

It has been determined that the Food Bank service activity is a charitable activity.

Taxpayer's Position:

The organization agreed to the revocation proposed by IRS. The effective date of the revocation is January 1, 20XX.

The organization signed the Form 6018 *Consent to Proposed Action – Section 7428* and agreed to submit the Forms 1120 for the years 20XX and 20XX.

Conclusion:

Except two hours of each month of the Food Bank Service, the majority of its activities conducted by the organization were regularly carried on business activities and not substantially related to furthering the exempt purpose of the organization.

Based on the facts and laws presented above, ORG has failed to operate exclusively charitable purposes within the meaning of IRC § 501(c)(3) and reporting requirements under IRC § 6033 to be recognized as exempt from federal income tax under IRC § 501(c)(3). Accordingly, the organization's exempt status is revoked effective January 1, 20XX.