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

Release Number: 201732032
Release Date: 8/11/2017
UIL Code: 501.03-00

Date: March 21, 2017

Tax Year Ending:
December 31, 20XX
Taxpayer Identification Number:

Person to Contact:

Employee Identification Number:

Employee Telephone Number:

CERTIFIED MAIL – RETURN RECEIPT

Dear :

This is a final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(3) effective January 1, 20XX. Your determination letter dated March 23, 19XX is revoked.

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

Organizations described in section 501(c)(3) of the Internal Revenue Code and exempt from tax under section 501(a) must be both organized and operated exclusively for exempt purposes. You have failed to establish that you are operated exclusively for exempt purposes and that no part of your net earnings inure to the benefit of private shareholders or individuals. You have failed to meet the operational test described in IRC 501(c)(3).

Specifically, funds were wired to a foreign charitable organization and used to purchase shares of a publicly-traded company in . The shares were bought by the organization's Treasurer. The benefits to your Treasurer, facilitated by you, are significant and are not incidental. This activity served a nonexempt purpose and inured to the benefit of your Treasurer.

An organization exempt under IRC 501(c)(3) is required to operate exclusively for public benefit as opposed to private interests. All directors and officers have a responsibility to ensure that the organization's primary purpose is directed to the furtherance of a charitable purpose.

Your officers and directors failed their fiduciary responsibilities to operate exclusively for IRC 501(c)(3) purposes because your officers and directors participated in and facilitated in the abusive transactions between the years 20XX and 20XX.

When an organization operates for the benefit of private interests, the organization, by definition, does not operate exclusively for exempt purposes. Thus, you are not operated exclusively for IRC 501(c)(3) purposes, and do not qualify for exemption as an organization described in IRC 501(c)(3).

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

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

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

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

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

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

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

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 1-877-777-4778.

If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service
Office of the Taxpayer Advocate

Tel:
Fax:

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

Sincerely,

Maria Hooke
Director, EO Examinations

Enclosure:
Publication 892

Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities
Exempt Organizations Examinations
1100 Commerce Street MS 4900 DAL
Dallas, TX 75242-1100

Date:
September 2, 2016
Taxpayer Identification Number:

Form:
990 Return
Tax Year(s) Ended:
December 31, 20XX
Person to Contact/ID Number:

Contact Numbers:
Telephone:
Fax:
Manager's Name/ID Number:

Manager's Contact Number:

Response due date:
October 3, 20XX

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 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.

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, EO Examinations

Enclosures:
Report of Examination
Form 6018
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 Dec. 31, 20xx

ISSUE

Should the exempt status of under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3) be revoked effective January 1, 20XX?

FACTS

was incorporated on October 6, 19XX in the State of as a non-profit corporation. Article 3 provided the first Board of Directors. was listed as one of the first Board of Directors. The Articles of Incorporation provided the purpose of the corporation is to provide .

filed the Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, on October 18, 19XX.

Part II of the Form 1023 sets forth the purposes of . It states that the purpose of is to assist underprivileged communities in reducing their poverty. It will be accomplished by promoting education and better healthcare, and providing assistance in the rehabilitation of victims of natural and man-made disasters. , the director of , is also a director of . is a charitable foundation promoting education in , and will be one of the beneficiaries of .

Internal Revenue Service granted tax exempt status to on March 23, 19XX.

The Forms 990 filed by between 20XX and 20XX provide the mission of is to promote education and health care in underprivileged communities by working closely with , a registered non-profit organization in . From 20XX through 20XX, Forms 990 listed its website address as . The registrant[1] name and registrant organization of the web address are and , respectively.

reported a total of $X,XXX,XXX grants made to outside U.S in its Form 990 between 20XX and 20XX. did not make any grant or conduct any exempt activity in the United States. The totals of the grants made in the years 20XX, 20XX, and 20XX were $X,XXX,XXX, $X,XXX,XXX, and $X,XXX,XXX, respectively.

The Internal Revenue Service did not receive the Form 990 for the year 20XX filed by .

Similar to the years 20XX through 20XX, the only activity of for the years 20XX through 20XX was to make grants to the organizations outside U.S. did not make any grant or conduct any exempt activity in the United States. The totals of the grants made in the years 20XX, 20XX, and 20XX were $XXX,XXX, $XXX,XXX, and $XXX,XXX, respectively.

[1] The registrant information was gathered from on May 11, 20XX.

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Relationship between and

was a director of from its inception to 20XX and the founder/director of . He also was the founder, chairman, and CEO of [2]. is a publicly traded company in .

has a close relationship with . Between 20XX and 20XX, four (4) of directors listed on Forms 990, , , , and , were also listed on Annual Reports as the directors of .

passed away in from complications of a stroke in October 20XX as said by news reports.

For the years 20XX and 20XX, three (3) of directors, , , and , were also the directors of . And, was listed as a chairman of on its 20XX Annual Report.

The following table provides the summary of the directors of and the directors of .

	20XX	20XX	20XX	20XX	20XX	20XX	
	X	X	X	X	X	X	X
	X	X	X	X			X
	X	X	X	X	X	X	
	X	X	X	X			
	X	X	X	X	X	X	
	X	X	X	X			
	X	X	X	X			X
	X	X	X	X	X	X	X
					X	X	
					X	X	
					X	X	
					X	X	X

– Treasurer of

was a director and treasurer of from 20XX to 20XX.

Between 20XX and 20XX, arranged to repurchase of more than XX,XXX,XXX shares in for over $X,XXX,XXX from , whom the U.S. Treasury Department's OFAC had designated as a shortly after the events of , 20XX. held an interest in through an company called .

loaned large sums of money to assist in the purchase those shares from

[2] 20XX Annual Report

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

. Between July 1, 20XX and March 31, 20XX, at direction, sent approximately XX wire transfers to accounts in , for a total of $X,XXX,XXX, to be used for the purchase of shares in . As a result, by June 20XX, was the listed holder of over X.XXX shares of stock in that had been purchased from for a total ownership interest in the corporation of X.XXX percent, and a value of over $X.X dollars. regularly communicated with regarding the status of the repurchase of shares from and/or [3]. See Exhibit 1 for the XX wire transfers to accounts in .

, as the treasurer of , told his donors that money was going to school children, and to flood relief. But instead of funding schools, a significant portion of assets went to buy shares back from , who has been designated by the Treasury Department as a . He knew that the money was going to buy back shares of , and not to school children, as the mission stated.

signed the plea agreement with the statement of facts described above on January 9, 20XX, and received his sentenced on August 1, 20XX.

<u>– Director of</u>

serviced with on the Board of Directors of at least from 20XX through 20XX.

was one of the individuals used by to route funds from to United States.

On March 9, 20XX, one of family members referenced need for reimbursement from on an upcoming trip to later that month. In the email, the family member wrote that she would transfer money to if would provide cash to in . agreed to the plan and instructed to send check to . In accordance with the agreement, wrote a check dated March 15, 20XX, and made payable to in the amount of $XX,XXX. On March 21, 20XX, one of family members wrote that wanted to transfer $XX,XXX into the bank account of brother, and would take the rest in cash when he arrived in between March 28 and April 10, 20XX[4].

deducted the $XX,XXX he sent to as a charitable contribution, even though he was reimbursed for this in .

claimed charitable deductions to for a total of $XXX,XXX between 20XX and 20XX, even though reimbursed him for at least a portion of these transfers. As a result, the Government had a total of $XX,XXX tax loss[5].

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[3] Case Document XX, Position of the United States with Respect to Sentencing Factors, filed on 07/28/XX
[4] Case Document XX, Statement of Facts, filed on 12/02/XX
[5] Case Document XX , Position of the United States with Respect to Sentencing Factors, filed on 07/28/XX

signed the plea agreement with the statement of facts described above on November 3, 20XX, and was sentenced on August 1, 20XX.

– Donor of

was a donor of who provided a testimony for another donor, [6], on April 21, 20XX.

indicated in his testimony that he made the first donation of $X,XXX to the in 20XX which was a directed donation to a distant cousin of him. He explained what directed donation is in his testimony. He said, directed donation is being able to direct a part of some of your donation to a cause that otherwise is dear to you as an individual. And that included earmarking a certain percentage or proportion of that donation for an end recipient, whether it be an organization or an individual, whether family member or otherwise, who you wanted to donate money to because you felt they deserved charity.

Subsequent to his first donation to , he made other directed donations that routed through . He indicated that an approximately X to XX percent of his donations were reimbursed.

agreed the statement made by his counsel in his testimony that it was not at all unusual for donors to the to indicate as part of their donation either what kind or what specific organization they would like to receive that money.

At the end of his testimony, he stated that the way it was presented was allowed you to give donations to non-501(c)(3) entities in that are charitable.

Interview with the officers of

The interview with the officers of including the president, was requested.

The interview was held on August 10, 20XX.

Two of directors, [7] and appeared at the interview. , representative, also appeared for the interview.

did not appear at the interview because of the advice of his attorney.

was asked how long he has been a director of . He replied, about X years. He also was asked why his name was on Forms 990 at least from 20XX through 20XX. He replied that he does not know why his name was shown on the Forms 990 prior to 20XX.

Questions regarding to the XX wire transactions made by the prior treasurer, , between 20XX and 20XX were asked to officers and representative. The answers were, do not know.

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[6] testimony provided that did not engage in a scheme to get reimbursement of his charitable contributions through stock returns (Case Document XX filed 04/23/XX).

[7] was appointed by board as a non-voting board member on July 10, 20XX. His name is not shown on the Forms 990 as a director of .

Questions regarding to the donation reimbursements received by prior director of , , were asked to officers and representative. The answer for the questions was that the board does not know about the reimbursements until the audit.

Questions regarding to the directed donations were asked to officers and representative. The answer for the questions was that the board is not aware of the directed donations.

LAWS

IRC §501(a) provides, in part, that organizations described in IRC §501(c) are exempt from federal income tax. Section 501(c)(3) of the Code describes, in part, an organization that is organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

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

Treasury Regulations §1.501(c)(3)-1(c)(1) states 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 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.

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

Treasury Regulations §1.501(c)(3)-1(d)(1)(ii) states that an organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (i) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, 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.

Revenue Ruling 80-278, 1980-2 CB 175, (Jan. 01, 1980) establishes that in making the determination of whether an organization's activities are consistent with exemption under section 501(c)(3) of the Code, the Service will rely on a three-part test. The organization's activities will be considered permissible under section 501(c)(3) if:

(1) The purpose of the organization is charitable;
(2) The activities are not illegal, contrary to a clearly defined and established public policy, or in conflict with express statutory restrictions; and
(3) The activities are in furtherance of the organization's exempt purpose and are reasonably related to the accomplishment of that purpose.

GOVERNMENT'S POSITION

It is the Government's position that the organization has failed to meet the operational test described in Treasury Regulation Section 1.501(c)(3)-1(c)(1). In order to continue tax-exempt status an organization must prove that it is operated exclusively for tax-exempt purposes and that no part of its net earnings inured to the benefit of any private individuals.

, the treasurer of , followed the direction of to wire a total of $X,XXX,XXX to for purchasing the shares of from , whom the U.S. Treasury Department's OFAC had designated as a shortly after the events of 20XX. knew that the funds were used to buy back shares of , not to school children, as the mission stated. However, he told the donors that money was going to school children and to flood relief.

The $X,XXX,XXX of funds used to purchase the shares of for represented XX.XX% of total grants made by in the years between 20XX through 20XX. The benefits to , facilitated by , are significant, and are not qualitatively and quantitatively incidental. This activity served a nonexempt purpose and merely inured to the private benefit of .

also made false representation to Internal Revenue Service and general public by filing its Forms 990 for the years 20XX through 20XX indicating that the funds granted to the organizations outside United Stated were used for promoting education and health care in underprivileged communities in . failed two of the three-part test described in Rev. Rul. 80-278. The activity of purchasing the shares of from , a , is contrary to a clearly defined and established public policy. And, the activity of purchasing the shares of for was not in furtherance of exempt purpose.

As mentioned above, used its funds for nonexempt purpose, also facilitated tax avoidance by allowing its officer, , and donors to make the improper charitable contribution deductions and receive private benefits.

According tax law, an IRC section 501(c)(3) nonprofit organization is required to operate exclusively for public benefit, refraining from allowing individuals to benefit financially. All directors and officers have a responsibility to ensure that the organization's primary purpose is directed to the furtherance of a charitable activity.

The officers and directors of failed their fiduciary responsibilities to operate the for exclusively tax-exempt purpose because the officers and directors participated in and facilitated the abusive transactions between the years 20XX through 20XX.

When an organization operates for the benefit of private interests, the organization, by definition, does not operate exclusively for exempt purposes. Thus, is not operated exclusively for 501(c)(3) purpose, and does not qualify for exemption as an organization described in section 501(c)(3).

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Based on the facts and laws presented above, has failed to operate exclusively charitable purposes within the meaning of IRC § 501(c)(3) 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.

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Exhibit 1 – the XX wire transfers to accounts in