



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
1100 Commerce Street, MC 4920DAL
Dallas, TX 75242

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Release Number: **201944012**

Release Date: 11/1/2019

Date: June 5, 2019

UIL Code: 501.03-00

EIN:

Person to Contact:

Identification Number:

Telephone Number:

Fax:

CERTIFIED MAIL – Return Receipt Requested
LAST DAY FOR FILING A PETITION WITH THE TAX COURT:

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 August 1, 20XX. Your determination letter dated September 30, 19XX is revoked.

Our adverse determination as to your exempt status was made for the following reasons:

Organizations described in I.R.C. § 501(c)(3) and exempt under section 501(a) must be both organized and operated exclusively for exempt purposes. You have not demonstrated that you are operated exclusively for charitable, educational, or other exempt purposes within the meaning of I.R.C. 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. You have not established that you have operated exclusively for an exempt purpose.

As such, you failed to meet the requirements of I.R.C. § 501(c)(3) and Treasury Regulation § 1.501(c)(3)-1(a), in that you have not established that you were organized and operated exclusively for exempt purposes and that no part of your earnings inured to the benefit of private shareholders or individuals.

Contributions to your organization are no longer deductible under section 170 of the Internal Revenue Code.

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 was mailed to you. Please contact the clerk of the appropriate court for the rules for initiating suits for declaratory judgment. 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, NW
Washington, DC 20217

US Court of Federal Claims
717 Madison Place, NW
Washington, DC 20005

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

You may be eligible for help from the Taxpayer advocate Service (TAS). (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 have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Maria Hooke

Enclosures:
Publication 892

Maria Hooke
Director, EO Examinations



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

Date: March 7, 2019

Taxpayer Identification Number:

Form:

990 Return

Tax Year(s) Ended:

Person to Contact:

Employee ID:

Telephone:

Fax:

Manager's Contact Information:

Employee ID:

Telephone:

Response Due Date:

April 8, 2019

CERTIFIED MAIL – Return Receipt Requested

Dear :

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

Letter 4102 (Rev. 8-2017)
Catalog Number 48373U

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.

For 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.

Sincerely,


for Maria Hooke
Director, Exempt Organizations
Examinations

Enclosures:
Form 886-A
Form 6018

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 6/30/20XX

ISSUE

Does the organization continue to qualify as an organization exempt from Federal income tax under Section 501(c)(3) the Internal Revenue Code (IRC)?

FACTS

From information obtained in the initial interview with the CEO and records provided during the audit, (), is a 0-bed hospital in , serving the , area with emergency, surgery, radiology, laboratory, physical rehabilitation, acute care and swing bed services.

Information contained on the Form 1023 application for federal tax exemption under IRC section 501(c)(3) received April 13, 19XX, shows was initially formed August 1, 19XX, as . The administrative file was requested with only limited information provided. The file did show the application was forwarded to the IRS National Office, as the application involved issues for which there was inadequate published precedent at that time. Service records show federal tax exemption under IRC section 501(c)(3) was granted effective May 1, 19XX. The organization was classified as a hospital within the meaning of IRC sections 509(a)(1) and 170(b)(1)(A)(iii). Service records show is not required to file Form 990 returns because of its dual status as a and an instrumentality of a governmental entity, Authority (the "City").

The City is the owner of the hospital building, 0 medical clinics, land, and operations ("hospital business"). From the date the organization was formed until August 1, 20XX, conducted exempt hospital activity as stated in its original Form 1023 application. Effective August 1, 20XX, the City, as seller, entered into an Agreement to Purchase and Lease, with (, the "buyer") and (, "buyers parent"), both for-profit entities, collectively the "Buyers." The agreement, provides the City agrees to sell all personal properties and assets in the use of hospital business, and will lease the hospital facilities i.e. hospital building, 0 medical clinics, with the land, to the Buyers. In consideration for the sale, the Buyers assumed liabilities and other contractual obligations of the hospital business. The resulting new entity, d/b/a (), became the new owner of the hospital business under a new Federal employer identification number.

Interview with the CEO revealed was subsequently acquired by () in March 20XX and is now the current owner of the hospital business. The CEO of the hospital indicated no changes to the operations/activities of the hospital have taken place as a result of the acquisitions. The City continues to own the hospital facilities and continues to lease the hospital facilities to .

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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CEO indicated during an interview, he was uncertain if a request for formal termination of its IRC section 501(c)(3) tax exempt status had been filed with the Service after its acquisition by , and subsequently by . However, he believes such a request has not been made. Service records indicate continues to be recognized as tax exempt under IRC section 501(c)(3).

From information obtained during the audit, has effectively discontinued operating as an IRC section 501(c)(3) organization, because it is no longer organized or operated for exempt purposes. This is supported by the acquisition and control of the hospital by the newly formed, non-exempt/for-profit entity , and subsequently by its current owner, . The newly formed entity is not organized or operated for exempt purposes and therefore could not have conducted any exempt activity since its acquisition.

LAW

Internal Revenue Code section 501(c)(3) provides for the exemption from Federal income tax of corporations organized and operated exclusively for religious, charitable, literary, scientific, and educational purposes; no part of the net earnings of which inures to any private shareholder or individual.

Treasury Regulation 1.501(c)(3)-1(a)(1) provides in order to be exempt as an organization described 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.

Treasury Regulations section 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 section 1.503(c)(3)-1(c)(2) states 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.

In Community Education Foundation v. Commissioner TC Memo. 2016-223, USTC, revocation of an organization’s exemption was supported due to a long extended period of inactivity. The organization did not meet the operational test in Treasury Regulations 1.501(c)(3)-1(c).

GOVERNMENT POSITION

It is clearly evident is an operating hospital facility. However, it is a newly formed entity and does not have a 501(c)(3) determination letter in its current organizational and operational structure. From the acquisition agreement it is evident the building continues to be owned by The

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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City, and is leased to the current owner. It follows that the former tax-exempt hospital (), has been inactive effective with its acquisition by and subsequently by its current owner, . Any activity, governing officials, and employees are now part of the newly formed entity. Currently there is no evidence continues to exist as a federally tax-exempt organization and therefore is not engaged in exempt activity.

It is the government's position that the organization's IRC section 501(c)(3) tax exemption should be revoked as it is no longer organized or operated exclusively for the purposes described in IRC section 501(c)(3).

The audit finds that when was acquired by the mentioned for-profit entities, it ceased to be organized and operated in furtherance of tax-exempt purposes. The hospital CEO states there are no future plans to operate as a 501(c)(3) exempt hospital.

As the hospital officials are no longer representing an exempt organization, they cannot request termination under 501(c)(3), as such a request is required to come from the exempt organization, which has become non-existent. Therefore, the 501(c)(3) tax exemption is recommended for revocation as provided for in the Regulations.

TAXPAYER'S POSITION

The current hospital CEO has indicated agreement with revocation.

CONCLUSION

To qualify under IRC section 501(c)(3), an organization must be both "organized" and "operated" exclusively for one or more purposes specified in that section. If the organization fails to meet either the organizational test or the operational test, it is not exempt. (Regs. 1.501 (c)(3)-1(a)(1)). The organizational test relates to the rules for governing an organization and the purposes stated in its articles of organization. The operational test relates to the organization's activities.

has effectively discontinued operations as an IRC section 501(c)(3) organization because it is no longer operated for exempt purposes, effective with the acquisition of by the non-exempt (for-profit) entity.

As a result of the examination, the IRS has determined that has failed to operate for exempt purposes described in IRC section 501(c)(3). ceased operations as a tax-exempt organization and sold their "hospital business" assets. There is no expectation that will be conducting any exempt activity in the future. Where it is evident that a 501(c)(3) organization is no longer actively operating in furtherance of its exempt purpose, it cannot pass the operational test and its tax-exempt status must be revoked.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Accordingly, it is proposed that the exemption from Federal income tax as an organization described in IRC section 501(c)(3) be revoked effective August 1, 20XX.

Contributions to your organization are no longer deductible by donors under section 170(c)(2) of the Code.

In accordance with this determination and should you operate in the future, you are required to file any appropriate Federal income tax returns as required.

In accordance with the provisions of section 6104(c) of the Code a copy of this letter will be sent to the appropriate State officials.

If you accept our findings, please sign and return the enclosed Form 6018, Consent to Proposed Action - Section 7428.