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

Release Number: 202528013
Release Date: 7/11/2025
UIL Code: 501.03-00

[redacted]

Date:
April 15, 2025
Taxpayer Identification Number:
[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:
July 14, 2025

CERTIFIED MAIL - Return Receipt Requested
Dear [redacted]

Why we are sending you this letter
You are receiving this letter because we have determined that you no longer qualify as an organization described in IRC Section 501(c)(3) for the period(s) above.

Your determination letter dated [redacted] is revoked, effective as of the later of the date of this determination letter or the date a final adverse determination letter is issued by the Independent Office of Appeals, should you decide to protest and our determination is sustained.

Attached to this letter is the Final Report of Revenue Agent under IRC Section 7611(g) (Form 886-A) with respect to your church tax examination with an examination notice date of [redacted] Our adverse determination was made for the following reasons: You have not demonstrated that you are operated exclusively for charitable, educational, religious, or other exempt purposes within the meaning of IRC Section 501(c)(3), and we found that your primary activities constitute an unrelated trade or business. You have failed to produce records and information which demonstrate that you meet the requirements of IRC Section 501(c)(3). You have failed to keep adequate books and records, or other documentation as required under Section 6001 and 6033 of the Internal Revenue Code. You have also failed to demonstrate that you are a church or a convention or association of churches within the meaning of IRC sections 509(a)(1) and 170(b)(1)(A)(i). See the attached Final Report of Revenue Agent under IRC Section 7611(g) for more information.

What you must do if you disagree with this determination
You have 30 days from the issuance of this letter to submit a formal protest, along with the attached consent form, Letter 6487, Consent to Suspend the Period to Conduct a Church Tax Examination, extending the 2-year limitation period on your church tax examination and allowing sufficient time for the Independent Office of Appeals to consider your administrative appeal.

The IRS 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, 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.

For purpose of the two-year limitation period on church tax examinations under IRC 7611(c)(1)(A), this letter will constitute a final determination marking the completion of the examination after the time indicated above to file a protest and consent form has lapsed (i.e., 30 days from the issuance of this letter). If you choose to file a protest, and the Independent Office of Appeals sustains the determination, a final adverse determination letter will be issued, permitting you an opportunity to bring a declaratory judgment action after your administrative appeal.

Alternatively, you may bring a declaratory judgment action under IRC 7428 by filing an appropriate pleading with the United States Tax Court, the United States Court of Federal Claims, or the district court of the United States for the District of Columbia within 90 days after the mailing date of this letter.

How to file your action for declaratory judgment
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.

If you fail to respond to this letter by filing a protest or a declaratory judgment action with one of the above courts, this letter is a final adverse determination that you don't qualify for tax exemption as a church.

In the event our determination becomes final, please be aware that:

- 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**.
- Contributions to your organization will no longer be deductible under IRC Section 170.

Sincerely,

[redacted]

Lynn A. Brinkley
Director, Exempt Organizations Examinations

Enclosures:
Form 886-A (Final Report of Revenue Agent under IRC Section 7611(g))
L6487, Consent to Suspend the Period to Conduct a Church Tax Examination
Publication 1
Publication 594
Publication 892

cc: [redacted]

Form **886-A** (Rev. May 2017)	**EXPLANATIONS OF ITEMS**	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (Last 4 digits)	Year/Period ended.

Issues:

1. Whether is operated exclusively for exempt purposes described within section 501(c)(3) of the Internal Revenue Code.

2. Whether activities constitute an unrelated trade or business and represent the primary activity of the organization.

3. Whether the operations of failed the operational test under IRC section 501(c)(3) and therefore should be revoked.

4. Whether failed to keep adequate books and records or other documentation as required under Section 6001 and 6033 of the Internal Revenue Code.

Facts:

(" " or "the organization") was incorporated on in the State of as a non-profit entity. According to its articles of incorporation, its purposes include " ". The organization was founded by (a/ka as). The organization was granted exemption from federal income tax as an entity described in section 501(c)(3), further described as a under section 170(b)(1)(A)(i) in a letter dated . To date, this determination has not been changed. The current address of the organization is .

During the pre-examination conference (see Exhibit 1), as well as its response dated , the organization also provided information on the current status of the organization which were outside the years of the examination which includes the following.

a) In , teams slowed down, and services was sporadic.
b) activities started to dwindle towards the end of and in they closed
c) had to board members while in operations, however the board was terminated at the end of .
d) They spun off into a newly formed for profit entity called
e) was no longer keeping the and have the attorneys working on dissolving and closing out.
f) An email received from on acknowledged that the remaining outstanding item is the dissolution of that needs to be completed and that was currently working on it.

A review of public records showed that ( ) was incorporated on in the State of as a for-profit entity. The registered agent was the founder of , . According to public information, holds the position of President Owner for The principal place of business and the mailing address for entity are the

Final Report of Revenue Agent under IRC Section 7611(g).

same as that for . The purpose is noted as follows " " (See Exhibit 2).

Form 1023 Application

Form 1023 application was received by the IRS on . The activities and operations information ( ) of the Form 1023 listed the following information. " "

. The Form 1023 was signed by . was listed as the CEO of the organization.

Review of Website

activities detail on its website revealed that groups around the country come alongside to reach children and go to the multi-family complexes, set up day camps and block parties and cook hotdogs served with . The offer lead games and teach and listened to the children who in turn listened to the . Additionally, activities were conducted at the address of , which is listed as a warehouse/storage in the public property record. (see Exhibit 3) According to the website, the warehouse was opened on nights to welcome in those who came. groups from and other States provided meals, entertainment for those who needed it, a shower and fresh change of clothes. The also did a our late night for $ per person consisting of spending the night at their training center doing light construction, painting, lunch, games, craft, and stories. They also offered a -day and -day trips as well as weekend trips.

A search of on website brought up a page with the following information: " is the and business owned by .
"

groups set up day camps and block parties to draw the children, build report and share the . For years rented to set up at the block parties because knew that nothing drew children quite like a big bright or slide. Then, a of years ago, thought, "

!" And so was born !

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We have ,

Our prices are very competitive, with special discounts for rentals and customer pickups. For those with great flexibility, our last-minute pickups are a real deal!" (Exhibit 4)

has its own website, and the following are excerpts from its webpage About Us & home page.

"

." (Exhibit 5)

"

"

"

". (Exhibit 6)

On , a ( ) was issued to via Letter ( ) which was mailed to . The includes concerns about tax exempt status as a and unrelated business activities being conducted. stated the following: "

". An attachment to asked several questions relative to the operations of .

<u>Response to</u> ( )

In response to the dated on , the founder/president stated the following relative to the history of the .

, the founder ( ) became the senior of ( ) in which was exempt as a non-profit 501(c)(3) entity because it fell under the organization. was in " ." The historic old building was in disarray and needed improvements. Activities being conducted includes teams that helped to facilitate . They also helped with and within the

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community. They conducted " " for kids and block parties at night for the families. The teams-built wheelchair ramps painted houses and tutored kids after school (non-summertime). " ." Thus, based on the response, was an outgrowth from .

In its response, also claimed the following: "Because of the costs of feeding the teams, housing, transportation, and supplies, we needed funds and a person suggested we start renting our inflatables to private individuals. We were already donating time and units to school, and many other non-profits, like ( ) for example. were used in our during the and rented out on the weekends." Thus, doing business under was started.

"Thus, we started under , we continue to host teams with the -hour, -day, senior, and sessions, with this new funding we were able to feed the homeless, allow them to shower, get haircuts, and kids to play basketball and table games in the abandoned warehouse." "Around , "the city building inspector along with the and the stopped us from housing teams, at our facility and feeding in the warehouse". Thus, , and which were being used to conduct their activities.

" , but had to . used , , and Teams, but we were doing more weekends and -day trips instead of week-long activities. These small trips and additional costs put a strain on our budgets in the ability to house/host Teams. Then if it could not get any worse, it did and the pandemic hit, many groups were canceling their spring break trip of and trips. Then the summer came, smaller teams• came and our as we had known it to be shut down by Covid. (*Note: had teams but with smaller and in under.)"

"We kept sending information about coming to , and we were hoping that the would . The were slow incoming, and we moved , had our services at times, but not being a , many stopped and although we to individuals for a while that too stopped. All insurance and the expenses kept needing to be paid, rent, utilities, contract workers, etc. We started a last push rebirth Teams in but were met with . were not responding. So, in of , we decided to halt trying to have Teams and to see if we can still be a non-profit or move to being a for-profit company. We are meeting with the lawyers to see how to go about it."

<u>Responses to Specific Questions Asked in</u>

Did you have an established or other membership group? Response: "We did until the pandemic hit, now we don't".

How many members do you have on roll? Response: "As discussed earlier we went from and then to when the pandemic hit."

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May your members be associated with another or ? Response: "
."

Does the regular membership pay tithes? If yes, are acknowledgement receipts provided? Response: "
."

What products do you rent or sell? Response: " , , ,
."

Is rental services available to the public? Response: " ."

What are your operating day and hours for ? Response: "
"

Describe each type of services that is available to the customer when renting or buying products? Response: " ."

Is there a cost associated with the services that provide? What makes up the cost? Response: "Yes, and expenses include gas, repairs, tow motor, insurance, purchase of units, cleaning, supplies, taxes, utilities, and normal business expenses."

Do you consider a major part of operations? Response: "Our priority was to use products in our for kids, family, and the community. It was a small part of our this helped a second benefit was to help us raise funds to support out . But when the pandemic came into existence we had few groups, but still had expenses, so we exchanged our program. We were hoping things would change, but groups not wanting to come to extreme crime communities."

As a result of responses to the questions, a ( ) was mailed to on in which records were requested including its general ledger, journals, cash disbursements and receipts books, check register, and specialized journals.

<u>Request for Books and Records</u>

Information Document Request (IDR) #1 was issued to the organization requesting books and records which include the following:
General ledger, balance sheet, income statement, trial balance, payroll reports, credit card statements copy of contracts, membership listing, dates, and time of all functions. In response to the IDR request, provided bank statements, some invoices associated with repairs to the building, and multiple affidavits indicating that records were destroyed via storm. The affidavits including affidavits from workers of stated that they were present at the time of the storm in and that the warehouse in which company files from where located were destroyed. " of legal documents were visibly damaged, soaked in water and beyond repair." Affidavits by the workers

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included a statement that was the owner of . No cancelled checks were submitted.

A summons was therefore issued to for items including bank statements and cancelled checks.

Review of Records
Records reviewed in conjunction with the examination consist of information submitted by , information retrieved from and website, information obtained via summons from financial institution, and internal filings with the IRS.

Revenue
Based on review of bank deposits the following information was noted.

Bank Statement Deposits

Year	Total Deposits	Comments

Of the amounts listed above the following were received from , Inc which is a financial services platform that enables accepting of credit card payments.

Other than the amounts from review of deposit information showed checks being deposited, as well as some small amount of cash. The checks were from those who rented the equipment including some from es with the memo field notated with the equipment being leased. There were some checks deposited from some es where the memo fields were blank or were notated as donation.

Expenses include payments to E-payment to , and other debit charges /point of sale charges to vendors such as .
Payments in the form of checks were made to various vendors and individuals to include , , , , and . were issued to various individuals that appears to be payroll related.

Law:

Operating exclusively for one or more exempt purposes specified in section 501(c)(3):

IRC Section 501(c)(3) of the Internal Revenue Code ("IRC") exempts from federal income tax organizations which are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, provided that no part of the organization's net earnings inures to the benefit of any private shareholder or individual. The term charitable includes relief of the poor and distressed. Section 1.501(c) (3)-1(d) (2), Income Tax Regulations.

Tax Regulation Section 1.501(c)(3)-1(a)(1) provides 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.

Tax Regulation 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 that 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. The existence of a substantial nonexempt purpose, regardless of the number or importance of exempt purposes, will cause failure of the operational test. Better Business Bureau of Washington, D.C. v. U.S., 326 U.S. 279 (1945).

Section 512(a)(1) defines unrelated business taxable income as the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less the deductions allowed by Chapter 1 of the Code that are directly connected with the carrying on of such trade or business, both computed with the modifications provided in section 512(b).

Therefore, unless one of the specific exceptions of section 512 or 513 is applicable, gross income of an exempt organization subject to the tax imposed by section 511 is includible in the computation of unrelated business taxable income if (1) it is income from trade or business, (2) such trade or business is regularly carried on by the organization, and (3) the conduct of such trade or business is not substantially related (other than through the production of funds) to the organization's performance of its exempt functions.

Section 513(a) defines "unrelated trade or business," in the case of any organization subject to the tax imposed by section 511, as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501.

Treas. Reg. 1.501(c)(3)-1(e) provides, in general, an organization may meet the requirements of IRC 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in IRC 513.

Treas. Reg. § 1.513-1(d)(1) provides that evaluating whether a trade or business is substantially related to an organization's exempt purposes requires an examination of the relationship between the trade or business and the accomplishment of the organization's exempt purposes. Treas. Reg. § 1.513-1(d)(2) states that a trade or business is related to an organization's exempt purposes only if the conduct of the trade or business has a causal relationship to the achievement of the organization's exempt purposes, and a trade or business is substantially related only if the causal relationship is a substantial one. For a trade or business to be substantially related to an organization's exempt purposes, such trade or business must contribute importantly to the accomplishment of those purposes. Whether a trade or business contributes importantly to the accomplishment of an organization's exempt purposes depends on the facts and circumstances involved.

United Missionary Aviation, Inc. v. Commissioner, 60 T.C.M. 1152, (CCH) 1990–566, the Tax Court held an organization formed to support religious missionary work was not exempt because it had a substantial nonexempt commercial purpose. The court focused on how the organization carried on its primary activity. Although no one factor was determinative, the court considered the following particularly relevant:

- The supply division was operated in the same manner as any profitable commercial enterprise.

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- The majority of equipment and tapes sold by the organization were also sold by commercial firms.
- The organization priced its merchandise approximately 20 percent above cost, which produced a net profit margin of approximately eight percent.
- The organization had substantial annual and accumulated profits

IRC Section 6001 provides that every person liable for any tax imposed by the IRC, or for the collection thereof, shall keep adequate records as the Secretary of the Treasury or his delegate may from time to time prescribe.

IRC Section 6033(a)(1) provides, except as provided in IRC section 6033(a)(2), every organization exempt from tax under section 501(a) shall file an annual return, stating specifically the items of gross income, receipts and disbursements, and such other information for the purposes of carrying out the internal revenue laws as the Secretary may by forms or regulations prescribe, and keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Treas. Reg. 1.6001-1(a) in conjunction with Treas. Reg. 1.6001-1(c) provides that every organization exempt from tax under IRC Section 501(a) and subject to the tax imposed by IRC Section 511 on its unrelated business income must keep such permanent books or accounts or records, including inventories, as are sufficient to establish the amount of gross income, deduction, credits, or other matters required to be shown by such person in any return of such tax. Such organization shall also keep such books and records as are required to substantiate the information required by IRC section 6033.

Treas. Reg. 1.6001-1(e) states that the books or records required by this section shall be kept at all times available for inspection by authorized internal revenue officers or employees and shall be retained as long as the contents thereof may be material in the administration of any internal revenue law.

Treas. Reg 1.6033-1(h)(2) provides that every organization which has established its right to exemption from tax, whether or not it is required to file an annual return of information, shall submit such additional information as may be required by the district director for the purpose of enabling him to inquire further into its exempt status and to administer the provisions of subchapter F (section 501 and the following), chapter 1 of the Code and IRC section 6033.

Revenue. Ruling. 59-95, 1959-1 C.B. 627, concerns an exempt organization that was requested to produce a financial statement and statement of its operations for a certain year. However, its records were so incomplete that the organization was unable to furnish such statements. The Service held that the failure or inability to file the required information return or otherwise to comply with the provisions of IRC section 6033 and the regulations which implement it, may result in the termination of the exempt status of an organization previously held exempt, on the grounds that the organization has not established that it is observing the conditions required for the continuation of exempt status.

TAXPAYER'S POSITION:

Unknown

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Governments Position:

Primary Activity of

did not operate as a under 170(b)(1) ((A)(i) or as an entity describe in section 501(c)(3). It did not operate exclusively for exempt purpose because its primary activity was the operation of a commercial businesses doing business as . Consequently, the exempt status of the organization should be revoked.

Starting in , exempt activities were severely impacted to the extent that a substantial part of its activities was the operation of which became its primary activity.

According to the timeline provided in the response dated , As of ," ". While this indicates a slowdown of the , it does not appear as if at that time the commercial activities were severely impacted. Review of source of income showed that the majority of the income generated was . Most of the checks deposited were from entities including es most of which were for payment for rental items. Analyzing the income reported by Inc (without taking into consideration checks and cash collected) revenue increased from $ in to $ in which is an approximate % increase. Revenue increased by % to $ for which indicates that while the activities diminished, the inflatable activity was striving. In addition, was open days for rentals. This is far more than the activity that had slowed down. This is indicative at this point this point the business became the primary activity of .

IRC 501(c)(3) requires an organization to be both “organized” and “operated” exclusively for one or more IRC 501(c)(3) purposes. If the organization fails either the organizational test or the operational test, it isn’t exempt. See Treas. Reg. 1.501(c)(3)-1(a)(1). The operational test applies to the organization’s activities and how it furthers exempt purposes. An organization won’t meet the operational test if: More than an insubstantial part of its activities isn’t in furtherance of an exempt purpose. See Treas. Reg. 1.501(c)(3)-1(c)(1). has failed the operational test since it’s activities are not exclusively in furtherance of IRC 501(c)(3).

Unrelated Trade or Business

The term trade or business generally includes any activity carried on for the production of income from selling goods or performing services.

As indicated in the response dated relative to our letter, due to the cost of feeding the teams, housing, transportation, and supplies funds were needed and thus started renting its inflatables to private individuals. Thus, it is apparent that the inflatable business was used to produce income.

IRC section 512 defines unrelated business taxable income as gross income generated by a trade or business regularly carried on by a tax-exempt organization that is not substantially related to the

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organization's tax-exempt purpose, less deductions directly connected with conducting the trade or business.

activities are described on its website as " is the and business owned by ." "

".

"

"

Treas. Reg. section 1.513-1(c)(2)(ii) provides that in determining whether or not intermittently conducted activities are regularly carried on, the manner of conduct of the activities must be compared with the manner in which commercial activities are normally pursued by nonexempt organizations. In general, exempt organization business activities that are engaged in only discontinuously or periodically will not be considered regularly carried on if they are conducted without the competitive and promotional efforts typical of commercial endeavors.

An organization may carry on a trade or business as a substantial part of its activities if the operation of such activity is in furtherance of the organization's exempt purposes. In determining the existence of such primary purpose, all the facts and circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities. See Treas. Reg. 1.501(c)(3)-1(e)(1).

activities is a trade or business since this is an activity carried on for the production of income which is also normally carried out by commercial entities. It is regularly carried on since the organization claimed that it is open days for rentals. Its website promotes the availability of the products. According to its website "" ." Although, it also rented to other tax-exempts entities, except for not charging sales tax, there was no indication that the prices where any different than when rented to a for-profit entity. It is not related to their exempt purpose as its primarily use to raise funds to carry out its exempt purpose.

operations meet the definition of a trade or business since its used to the production of income, regularly carried on, and it not related to their exempt status. By conducting a trade or business as a substantial part of its activities, as failed the operational test and thus is not exempt under 501(c)(3) of the Code or any other section of the code.

<u>Books and Records</u>

failed to provide records as is required in Code section 6033(a)(1) and Regulation 1.6033-1(h)(2). They failed to provide sufficient financial information that support that the organization engaged in exempt activities, which were requested during the examination. There are no records to support that they have been performing exempt purpose activities since .

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Information Document Request (IDR) #1 was issued to the organization requesting books and records which include the following: general ledger, balance sheet, income statement, trial balance, payroll reports, credit card statements copy of contracts, membership listing, dates, and time of all functions. In response to the IDR request, provided bank statements, some invoices associated with repairs to the building, and multiple affidavits indicating that records were destroyed via storm. Even though its website showed some activities such as that of the teams that constitute its exempt activities, there was no record to substantiate what was done, how frequent, or the persons involved. A review of the bank statements and cancelled checks did not show identifiable income or expense items that could be attributed to exempt activities. Even though the records were claimed to be destroyed, the organization has indicated that when the pandemic came, their exempt activities dwindled and ultimately the was shut down and the teams halted. Based on that, even if there were books and records, they most likely would show deminimus exempt activities.

Conclusion:

is not operating exclusively for charitable, religious, or educational purposes consistent with Section 501(c)(3) of the Code and Treas. Reg. 1.501(c)(3)-1(d)(1)(i) and therefore fail to meet the operational test under Treas. Reg. 1.501(c)(3)-1(b)(4). Starting in , exempt activities were severely impacted to the extent that a substantial part of its activities was the operation of which became its primary activity. activities constitute a trade or business. By conducting a trade or business as a substantial part of its activities, it has failed the operational test and thus is not exempt under 501(c)(3) of the Code or any other section of the code.

failed to meet the reporting requirements under Internal Revenue Code sections 6001 and 6033 by not providing documentation to substantiate that its activities are consistent with 501(c)(3) of the Code. The organization claimed that its records were destroyed in a storm. The records provided by , as well as the records secured from the financial institution did not show that the organization operated exclusively for purposes described in section 501(3)(3).

Accordingly, since the organization failed to operate primarily for exempt purposes, its exempt status is revoked effective .

Final Report of Revenue Agent under IRC Section 7611(g).