



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

Date:
06/09/2025
Employer ID number:

Person to contact:

Release Number: 202536031
Release Date: 9/5/2025
UIL Code: 501.03-05, 501.03-30

Dear :

This letter is our final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

Because you don't qualify as a tax-exempt organization under IRC Section 501(c)(3), donors generally can't deduct contributions to you under IRC Section 170.

We may notify the appropriate state officials of our determination, as required by IRC Section 6104(c), by sending them a copy of this final letter along with the proposed determination letter.

You must file the federal income tax forms for the tax years shown above within **30 days** from the date of this letter unless you request an extension of time to file. For further instructions, forms, and information, visit www.irs.gov.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection after deleting certain identifying information, as required by IRC Section 6110. Read the enclosed Letter 437, Notice of Intention to Disclose - Rulings, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can call the contact person shown above. If you have questions about your federal income tax status and responsibilities, call our customer service number at 800-829-1040 (TTY 800-829-4933 for deaf or hard of hearing) or customer service for businesses at 800-829-4933.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437
Redacted Letter 4034
Letter 4038



**Department of the Treasury
Internal Revenue Service**

Date:
04/21/2025
Employer ID number:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Legend:

X = Date

Y = State

UIL:

501.03-05

501.03-30

Dear Applicant:

We considered your application for recognition of exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a). We determined that you don't qualify for exemption under IRC Section 501(c)(3). This letter explains the reasons for our conclusion. Please keep it for your records.

Issues

Do you qualify for exemption under IRC Section 501(c)(3)? No, for the reasons stated below.

Facts

You were incorporated on X in the State of Y.

You submitted Form 1023 requesting exemption under IRC Section 501(c)(3). Your application indicates you are a start-up business formed to promote local businesses and tourism in the State of Y to boost the local economies of blighted areas affected by the decline of the industry. In addition, you will host fundraisers to provide donations to small businesses in your community that need financial assistance.

To promote tourism in the State of Y, you will host numerous outdoor events each year involving motorcycles, automobiles, and watersports, which will be open to the public. The purpose of these events is to educate the public on recreational opportunities in the State of Y to increase tourism and thereby increase patronage of local businesses, boosting the local economy and revitalizing economically distressed communities.

Your sources of revenue include membership dues, fundraising, and grants. Your financial assistance to businesses will not be limited to any specific type of business or organization. You will not establish a policy for businesses to follow in order to receive your financial assistance, and there will be no requirements for businesses to restrict their purposes or activities to those described in IRC Section 501(c)(3).

Law

IRC Section 501(c)(3) provides for the exemption from federal income tax of organizations organized and operated exclusively for religious, charitable, or other purposes as specified in the statute. No part of the net earnings may inure to the benefit of any private shareholder or individual.

Treasury Regulation Section 1.501(c)(3)-1(a)(1) states that to qualify under IRC Section 501(c)(3), an organization must be both organized and operated exclusively for one or more exempt purposes. If an organization fails to meet either the organizational or operational test, it is not exempt.

Treas. Reg. Section 1.501(c)(3)-1(c)(1) provides that an organization will be regarded as “operated exclusively” for one or more exempt purposes only if it engages primarily in activities that accomplish one or more of such exempt purposes specified in IRC 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.

Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii) states that an organization is not operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. It must not be operated for the benefit of designated individuals or the persons who created it.

Treas. Reg. Section 1.501(c)(3)-1(d)(2) provides the term “charitable” is used in IRC Section 501(c)(3) in its generally accepted legal sense and includes relieving the poor and distressed or the underprivileged, combating community deterioration, lessening neighborhood tensions, and eliminating prejudice and discrimination.

Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i) provides that the term “educational,” as used in IRC Section 501(c)(3), relates to the instruction or training of the individual for the purpose of improving or developing his capabilities or the instruction of the public on subjects useful to the individual and beneficial to the community.

In Revenue Ruling 71-504, 1971-2 C.B. 231, a city medical society exempt under IRC Section 501(c)(6), that primarily directs its activities to the promotion of the common business purposes of its members may not be reclassified as an educational or charitable organization under Section 501(c)(3). The society was created for the purpose of promoting the art of medicine, the betterment of public health, and the unity, harmony, and welfare of members of the medical profession. Membership is open to all doctors in the community. Activities included presentations on new procedures and clinical care, an extensive library of medical books for use by members, a monthly medical journal, supporting medical education and local health programs, a patient referral service for members, meetings concerned with matters affecting the promotion and practice of medicine and enhancing and improving the public image of the medical profession. While some of the society's activities are charitable or educational, several are instead directed primarily at the promotion of the medical profession and thus further the common business purposes of its members.

Rev Rul. 77-111, 1977-1 C.B. 144, describes an organization formed to increase business patronage in a deteriorated area by providing information on the area's shopping opportunities, local transportation, and accommodations, which was not found to be operated exclusively for charitable purposes and, therefore, did not qualify for exemption under IRC Section 501(c)(3).

Rev. Rul. 76-419, 1976-2 C.B. 146, describes a nonprofit organization that purchased blighted land in an economically depressed community, converted the land into an industrial park, and encouraged industrial

enterprises to locate new facilities in the park to provide employment opportunities for low-income residents of the area, which was held to operate exclusively for charitable purposes and, therefore, qualify for exemption under IRC Section 501(c)(3).

In American Institute of Economic Research v. United States, 302 F.2d 934 (Ct. CL. 1962), the Court considered an organization that provided analyses of securities and industries and of the economic climate in general. It sold subscriptions to various periodicals and services providing advice for purchases of individual securities. The court noted that education is a broad concept, and assumed *arguendo* that the organization had an educational purpose. However, the totality of the organization's activities, which included the sale of many publications as well as the sale of advice for a fee to individuals, was indicative of a business. Therefore, the court held that the organization had a significant non-exempt commercial purpose that was not incidental to the educational purpose and was not entitled to be regarded as exempt.

Application of law

IRC Section 501(c)(3) sets forth two main tests for qualification of exempt status. As stated in Treas. Reg. Section 1.501(c)(3)-1(a)(1), an organization must be both organized and operated exclusively for purposes described in Section 501(c)(3). You fail the operational test for the reasons explained below.

You do not meet the provisions of Treas. Reg. Section 1.501(c)(3)-1(c)(1) because you are not operating exclusively for exempt purposes. You formed to promote tourism in economically blighted areas affected by the decline of the industry, with the goal of benefitting local businesses through increased consumer traffic and direct donations. Although your intention is to promote economic stability in blighted areas, your activities serve the private interests of the businesses you aim to benefit through increased sales and donations, which is contrary to Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii). Any economic revitalization spurred by your activities is incidental to your primary purpose, which is to benefit local businesses that are not required to further exempt purposes under IRC Section 501(c)(3). Therefore, you do not directly serve any charitable purposes as defined under Treas. Reg. Section 1.501(c)(3)-1(d)(2) or educational purposes as defined in Treas. Reg. Section 1.501(c)(3)-1(d)(3)(i).

Like the organization in Rev. Rul. 71-504, you conduct substantial nonexempt purposes and activities under IRC Section 501(c)(3). Even though you indicated you would help distressed communities impacted by a loss of , your activities do not further exempt purposes under IRC Section 501(c)(3). Most of your activities are directed at promoting tourism and outdoor sports within the State of Y. This includes marketing and promoting local areas, increasing exposure for businesses, and hosting fundraisers to promote tourism, none of which promote exempt purposes under IRC Section 501(c)(3). Thus, you are precluded from exemption.

Like the organization described in Rev. Rul. 77-111, you are also not operating exclusively for exempt purposes described in IRC Section 501(c)(3). Similar to this organization, you are formed primarily to increase business patronage in a deteriorated area, which does not serve exempt purposes under Section 501(c)(3). Your activities may incidentally provide economic stimulation to blighted areas; however, the direct benefits to for-profit businesses from your activities primarily serve private interests, even if the public interest is incidentally served as well. This is contrary to exemption under Section 501(c)(3).

You are not like the organization described in Rev. Rul. 76-419, because you are not furthering exempt purposes. Although your activities and events are aimed at economically depressed areas, you are not converting blighted land to encourage industry to move to the State of Y to increase employment opportunities

for low-income residents. Your organization prioritizes tourism to attract commercial traffic to a specific area to provide businesses with increased profits and direct donations, and you place no limitations on which businesses are benefited by your activities or donations. Therefore, you do not qualify for exemption under IRC Section 501(c)(3).

You are like the organization described in American Institute for Economic Research, because you were also formed for a nonexempt purpose under IRC Section 501(c)(3). While your activities may incidentally benefit economically blighted communities, it is for-profit businesses that will primarily benefit from your activities. Thus, you are not “operating exclusively” for exempt purposes and do not meet the requirements of Section 501(c)(3).

Conclusion

Based on the information in your application, you fail the operational test under IRC Section 501(c)(3) because you are furthering substantial nonexempt purposes. Your primary purpose is to aid the development of businesses by promoting tourism and motorsports within the State of Y, and any benefit to blighted, local communities is incidental to your primary purpose. Accordingly, you are not engaging primarily in activities that accomplish one or more exempt purposes specified in IRC Section 501(c)(3), and you do not meet the requirements for federal tax exemption.

If you agree

If you agree with our proposed adverse determination, you don’t need to do anything. If we don’t hear from you within 30 days, we’ll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

If you don’t agree

You have a right to protest if you don’t agree with our proposed adverse determination. To do so, send us a protest within 30 days of the date of this letter. You must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A statement of the facts, law, and arguments supporting your position
- A statement indicating whether you are requesting an Appeals Office conference
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization or your authorized representative
- The following declaration:

For an officer, director, trustee, or other official who is authorized to sign for the organization:

Under penalties of perjury, I declare that I have examined this request, or this modification to the request, including accompanying documents, and to the best of my knowledge and belief, the request or the modification contains all relevant facts relating to the request, and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, Power of Attorney and Declaration of Representative, with us if they haven’t already done so. You can find more information about representation in Publication 947, Practice Before the IRS and Power of Attorney.

We'll review your protest statement and decide if you gave us a basis to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't given us a basis for reconsideration, we'll send your case to the Appeals Office and notify you. You can find more information in Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court later because the law requires that you use the IRC administrative process first (IRC Section 7428(b)(2)).

Where to send your protest

Send your protest, Form 2848, if applicable, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service
EO Determinations Quality Assurance
Mail Stop 6403
PO Box 2508
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service
EO Determinations Quality Assurance
550 Main Street, Mail Stop 6403
Cincinnati, OH 45202

You can also fax your protest and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that they received it.

You can get 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 listed at the top of this letter.

Contacting the Taxpayer Advocate Service

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 if 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.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

