



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

Date:
06/09/2025
Employer ID number:

Person to contact:

Release Number: 202536032
Release Date: 9/5/2025
UTL Code: 501.03-00, 501.03-05, 501.33-00

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:
04/14/2025
Employer ID number:

Person to contact:

Name:
ID number:
Telephone:
Fax:

Legend:

B = Date
C = State
D = City, State
E = Number
f dollars = Amount

UIL:

501.03-00
501.03-05
501.33-00

Dear :

We considered your Streamline Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, 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 submitted Form 1023-EZ, *Streamline Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*.

You attest that you were incorporated on B in the State of C. You attest that you have the necessary organizing document, that your organizing document limits your purposes to one or more exempt purposes within the meaning of IRC Section 501(c)(3), that your organizing document does not expressly empower you to engage in activities, other than an insubstantial part, that are not in furtherance of one or more exempt purposes, and that your organizing document contains the dissolution provision required under Section 501(c)(3).

You attest that you have not conducted and will not conduct prohibited activities under Section 501(c)(3). Specifically, you attest you will:

- Refrain from supporting or opposing candidates in political campaigns in any way
- Ensure that your net earnings do not inure in whole or in part to the benefit of private shareholders or individuals

- Not further non-exempt purposes (such as purposes that benefit private interests) more than insubstantially
- Not be organized or operated for the primary purpose of conducting a trade or business that is not related to your exempt purpose(s)
- Not devote more than an insubstantial part of your activities attempting to influence legislation or, if you made a Section 501(h) election, not normally make expenditures more than expenditure limitations outlined in Section 501(h).
- Not provide commercial-type insurance as a substantial part of your activities.

Your Form 1023-EZ indicates you are a utility district that provides members with water service on a nonprofit basis.

During review of your Form 1023-EZ, detailed information was requested supplemental to the above attestations.

You were formed to provide your members with water service on a non-profit basis and to receive and distribute funds as required, thus serving your community by providing needed water service. Your membership includes all owners of land in D; membership is lost or gained through the sale or purchases of any said land by which the legal title is transferred.

You have E membership shares, which is the maximum shares available. Water service is provided to these membership households from wells. You listed your members and provided a sample share certificate that your members own.

You bill each of your members for water service yearly in the amount of f dollars. Your fees are determined by reviewing current expenses and then discussing at your annual meeting whether to increase your rates. You have also acquired loan debt associated with building your well, which was agreed upon by your members. Each member pays an equal share of the loan annually.

Your gross revenues include your fees and a small amount of interest income. Your expenses are related to maintenance and delivery of water to your members, including licenses/permits, repairs, and supplies.

Law

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

Treasury Regulation Section 1.501(c)(3)-1(a)(1) provides that, for an organization to be exempt and described in IRC Section 501(c)(3), that 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.

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 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.

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.

Revenue Ruling 69-175, 1969-1 C.B. 149, describes an organization formed by the parents of pupils attending a private school exempt under IRC Section 501(c)(3). The organization provides bus transportation to and from the school for those children whose parents belong to the organization. The ruling states that when a group of individuals associate to provide a cooperative service for themselves, they are serving a private interest. By providing bus transportation for school children to school, the organization enables the participating parents to fulfill their individual responsibility of transporting their children to school.

Rev. Rul. 71-395, 1972-2 C.B. 228, holds that a cooperative art gallery formed and operated by a group of artists for the purpose of exhibiting and selling their works does not qualify for exemption under IRC Section 501(c)(3). The ruling concluded that the cooperative gallery primarily served the private interests of its members, even though the exhibition and sales of paintings may be an educational activity in other respects.

In Benedict Ginsberg and Adele W. Ginsberg v. Commissioner, 46 T.C. 47 (1966), exemption was retroactively revoked from a corporation to conduct the dredging of certain waterways. It was held that the corporation was organized and operated primarily for the benefit of those persons owning property adjacent to the waterways dredged rather than for public or charitable purposes. Therefore, the corporation didn't qualify for exemption under IRC Section 501(c)(3).

Application of law

IRS Section 501(c)(3) sets forth two main tests for qualification for 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.

As a local cooperative comprised of landowners in D that charges your members for water service, you are primarily serving private interests and not the public interest; therefore, you are not organized and operated exclusively for exempt purposes under IRC Section 501(c)(3). The provisioning of water is not an activity that automatically confers exemption upon an organization; rather, it is how an organization carries out its purpose, and not solely the purpose itself, which determines whether the requirements for exemption are met per Treas. Reg. Section 1.501(c)(3)-1(c)(1). Although water is generally regarded as a necessity, you provide it in a manner which serves the private interests of your members, not the public interest; in other words, providing cooperative water service for a fee to landowners in D benefits your members, not the public. Thus, you failed to show how you further exempt purposes under IRC Section 501(c)(3).

You are also similar to the organizations described in Rev. Rul. 69-175 and Rev. Rul. 71-395. These two organizations were denied exemption because providing services on a cooperative basis was held to further their own private interests and not the public interest, as required for exemption under IRC Section 501(c)(3). Similarly, by charging your members for the provision of potable water, you are acting in a cooperative manner to further private interests and not the public interest, which is contrary to the provisions of Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii).

As explained in Better Business Bureau of Washington, D.C., Inc., a single, substantial non-exempt purpose is sufficient to prevent exemption. You have a substantial non-exempt purpose of serving private interests by

charging your members for water service. Likewise, you are like the organization described in Benedict Ginsberg and Adele W Ginsberg. Similar to that organization, you are also operating for the convenience and private interests of your members rather than for public or charitable purposes by charging members in D for cooperative water service. Therefore, you do not qualify for exemption under IRC Section 501(c)(3).

Conclusion

Based on the facts and circumstances presented, you do not qualify for exemption as an organization described in IRC Section 501(c)(3). You are not organized and operated exclusively for exempt purposes as set forth in Section 501(c)(3) because you are operated for the substantial nonexempt purpose of providing cooperative water service to your members only.

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

