



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

Date:
06/13/2025
Employer ID number:

Person to contact:

Release Number: 202536034
Release Date: 9/5/2025
UIL Code: 5501.03-00, 501.35-00, 501.36-01

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:
04/28/2025
Employer ID number:

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

Legend:

G = State
H = Date
J = Business
K = Country

UIL:

501.03-00
501.35-00
501.36-01

Dear _____ :

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 in G on H. You did have exemption under IRC Section 501(c)(3) until your exempt status was automatically revoked for failure to file required Annual Returns or notices for three consecutive years. You submitted Form 1023 to reinstate your revoked status.

In your Form 1023 submission, you reported rehabilitating people who need help by renting rooms through J as your main activity. You indicated this would be funded solely through room rental fees. You also reported that you would be providing food and clothes to people in the street and counseling people on financial issues. You further indicated that you recently registered churches in two regions in K.

We subsequently requested additional information to better clarify your operations and ensure an accurate determination on your current exempt status. You stated your only activity is renting rooms, in a building owned by your President, through J to generate income to support your church. Based on the financial information that you provided, the building is a debt-financed property. You use the J application to handle all rental transactions, such as rates and rental requests. You stated all the other activities, such as providing food and clothes to people in the street, or helping rehabilitate people, was submitted erroneously by a prior tax advisor, with whom you are no longer associated.

With regards to the churches in K, you explained that you have no current operations, church or otherwise, in K. You emphasized that your only operations are rentals of rooms to people who need a place to stay. The income generated is used to support a church. All your income is obtained by renting rooms through J.

Law

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

IRC Section 513 provides that the term “unrelated trade or business” means 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.

IRC Section 514 provides that the term “debt-financed property” means any property which is held to produce income and with respect to which there is an acquisition indebtedness except that such term does not include any property substantially all the use of which is substantially related (aside from the need of the organization for income or funds) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption.

Treasury Regulation Section 1.501(c)(3)-1(a)(1) provides that, to be exempt as an organization described in IRC 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 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 which 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(e)(1) provides that an organization may meet the requirements of IRC Section 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 primarily for the purpose of carrying on an unrelated trade or business, as defined in IRC Section 513. An organization which is organized and operated for the primary purpose of carrying on an unrelated trade or business is not exempt under Section 501(c)(3) even though it has certain religious purposes.

In Revenue Ruling 72-369, 1972-2 C.B. 245, an organization was formed to provide managerial and consulting services for section 501(c)(3) organizations to improve the administration of their charitable programs. The organization enters into agreements with unrelated section 501(c)(3) organizations to furnish managerial and consulting services on a cost basis. This revenue ruling stated that an organization is not exempt merely because its operations are not conducted for the purpose of producing a profit. To satisfy the 'operational test,' the organization's resources must be devoted to purposes that qualify as exclusively charitable within the meaning of section 501(c)(3) of the Code and the applicable regulations. Providing managerial and consulting services on a regular basis for a fee is a trade or business ordinarily carried on for profit. The fact that the services in this

case are provided at cost and solely for exempt organizations is not sufficient to characterize this activity as charitable within the meaning of section 501(c)(3) of the Code. Furnishing the services at cost lacks the donative element necessary to establish this activity as charitable.

In Better Business Bureau of Washington, D.C., v. U.S., 326 U.S. 279 (1945), the Court held an organization qualifying for exemption under IRC Section 501(c)(3) must be exclusively devoted to furthering Section 501(c)(3) purposes and the presence of a single substantial non-exempt purpose will prohibit exemption qualification regardless of presence of any exempt purposes. Noting an activity can have more than one purpose, the Court also held that once a substantial non-exempt purpose is established, it is unnecessary to determine whether there are exempt purposes because exemption is unavailable.

In B.S.W. Group, Inc. v. Commissioner, 70 T.C. 352 (1978), the Tax Court held that an organization did not qualify for exemption under Section 501(c)(3) of the Code because it was primarily engaged in an activity that was characteristic of a trade or business and was ordinarily carried on by for-profit commercial businesses. The Tax Court stated: "We must agree with the Commissioner that petitioner's activity constitutes the conduct of a consulting business of the sort which is ordinarily carried on by commercial ventures organized for profit."

In Living Faith, Inc. v. Commissioner, 950 F.2d 365 (7th Cir. 1991), the court affirmed that Living Faith did not qualify for exemption under Section 501(c)(3) of the Code since it operated its restaurants and health food stores for a substantially commercial purpose. Its underlying religious purposes did not mitigate the clear commercial purpose of its operations.

In Zagfly, Inc. v. C.I.R., T.C. Memo 2013-29 (2013), the court held that Zagfly's primary activity, the operation of a web-based broker that would sell flowers at market rates, was not a charitable activity, but rather a commercial activity that amounts to an unrelated trade or business. Therefore, the organization did not meet the requirements of Section 501(c)(3) of the Code because its primary activity did not further a 501(c)(3) purpose.

Application of law

IRC Section 501(c)(3) sets forth two tests to qualify for tax-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 under Section 501(c)(3) because you are not operating exclusively for charitable or other exempt purposes as required under Treas. Reg. Section 1.501(c)(3)-1(c)(1).

Although Treas. Reg. Section 1.501(c)(3)-1(e)(1) indicates that an organization can meet the requirement for exemption under IRC Section 501(c)(3) if it operates a related business as a substantial part of its activities, it goes on to stipulate the organization cannot be organized or operated primarily for the purpose of carrying on an unrelated trade or business, as defined in IRC Section 513.

An organization which is organized and operated for the primary purpose of carrying on an unrelated trade or business is not exempt under Section 501(c)(3) even though it has certain religious purposes. Your primary purpose and operations are to rent rooms to anyone looking for a place to stay through J, which does not further any recognized exempt purpose. Furthermore, your building is a debt-financed property as described in IRC Section 514.

Like the organizations denied exemption in Rev. Rul. 72-369, B.S.W. Group, Inc., Living Faith, Inc., and Zagfly, Inc., you are operating a regular business in a non-exempt commercial manner. Your leasing fee is

comparable to other room rental providers in the area and furthers no recognized exempt purpose. Since this is your only activity, you are precluded from exemption under IRC Section 501(c)(3). See Better Business Bureau of Washington, D.C.

Conclusion

You fail the operational test because you operate primarily for the purpose of carrying on an unrelated trade or business, as defined in IRC Section 513. Therefore, you do not qualify for exemption under IRC Section 501(c)(3).

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

