



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

Date:

07/24/2025

Taxpayer ID number (last 4 digits):

[REDACTED]

Form:

[REDACTED]

Tax periods ended:

[REDACTED]

Person to contact:

[REDACTED]

Last day to file petition with United States
Tax Court:

10/22/2025

[REDACTED]

Release Number: 202550030

Release Date: 12/12/2025

UIL Code: 501.03-00

CERTIFIED MAIL - Return Receipt Requested

Dear [REDACTED]

Why we are sending you this letter

This is a 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), effective [REDACTED]. Your determination letter dated [REDACTED] is revoked.

Our adverse determination as to your exempt status was made for the following reasons: Organizations described in IRC Section 501(c)(3) and exempt under IRC Section 501(a) must be both organized and operated exclusively for exempt purposes. You failed to demonstrate that you are organized and operated exclusively for charitable, educational, or other exempt purposes within the meaning of IRC Section 501(c)(3).

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**.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

If you decide to contest this determination, you can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. 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.

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. However, you may be eligible for free help from the Taxpayer Advocate Service (TAS) if you can't resolve your tax problem with the IRS or if you believe an IRS procedure just isn't working as it should. TAS is an independent organization within the IRS that helps taxpayers and protects taxpayer rights. Visit **TaxpayerAdvocate.IRS.gov/contact-us** or call 877-777-4778 (TTY/TDD 800-829-4059) to find the location and phone number of your local advocate. Learn more about TAS and your rights under the Taxpayer Bill of Rights at **TaxpayerAdvocate.IRS.gov**. Do not send your Tax Court petition to TAS. Use the Tax Court address provided earlier in the letter. Contacting TAS does not extend the time to file a petition.

Where you can find more information

Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

Find tax forms or publications by visiting **IRS.gov/forms** or calling 800-TAX-FORM (800-829-3676). If you have questions, you can call the person shown at the top of this letter.

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

You may fax your documents to the fax number shown above, using either a fax machine or online fax service. Protect yourself when sending digital data by understanding the fax service's privacy and security policies.

Keep the original letter for your records.

Sincerely,

A black rectangular redaction box covering the signature of Lynn A. Brinkley.

Lynn A. Brinkley
Director, Exempt Organizations Examinations

Enclosures:
Publication 1
Publication 594
Publication 892



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

[REDACTED]

[REDACTED]

Date:

[REDACTED]

Taxpayer ID number:

[REDACTED]

Form:

[REDACTED]

Tax periods ended:

[REDACTED]

Person to contact:

[REDACTED]

Manager's contact information:

[REDACTED]

Response due date:

[REDACTED]

CERTIFIED MAIL – Return Receipt Requested

Dear [REDACTED]

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 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.

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: Lynn A. Brinkley
Director, Exempt Organizations Examinations

Enclosures:

Form 886-a, 4621, 6018
Publication 892, 3498

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

Issues

Whether [REDACTED] ([REDACTED]) exemption under the Internal Revenue Code (IRC) section 501(c)(3) be revoked due to failing to operate exclusively for one or more exempt purposes.

Facts

[REDACTED] was declared as a charitable trust on [REDACTED] in the state of [REDACTED] as founder/donor and [REDACTED] as trustees. [REDACTED] indicated on Form 1023-EZ application for exemption, that it was organized for charitable, religious, scientific, literary, and educational purposes. [REDACTED] was given exemption under section 501(c)(3) as a private foundation (nonoperating) effective [REDACTED]

[REDACTED] return shows zero tax computed under section 4940 in Part V, line 5.

Part VI-B is left unanswered, including question 2, Taxes on failure to distribute income (section 4942).

Zero tax computed under Part IX, Minimum Investment Return.

Zero tax computed under Part X, Distributable Amount and most of the section left blank.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (<i>last 4 digits</i>) [REDACTED]	Year/Period ended [REDACTED]

Zero distribution made in Part XI.

However, Part XIV show distribution made to a 501(c)(3) organization.

Similarly, Part XII is mostly unanswered.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

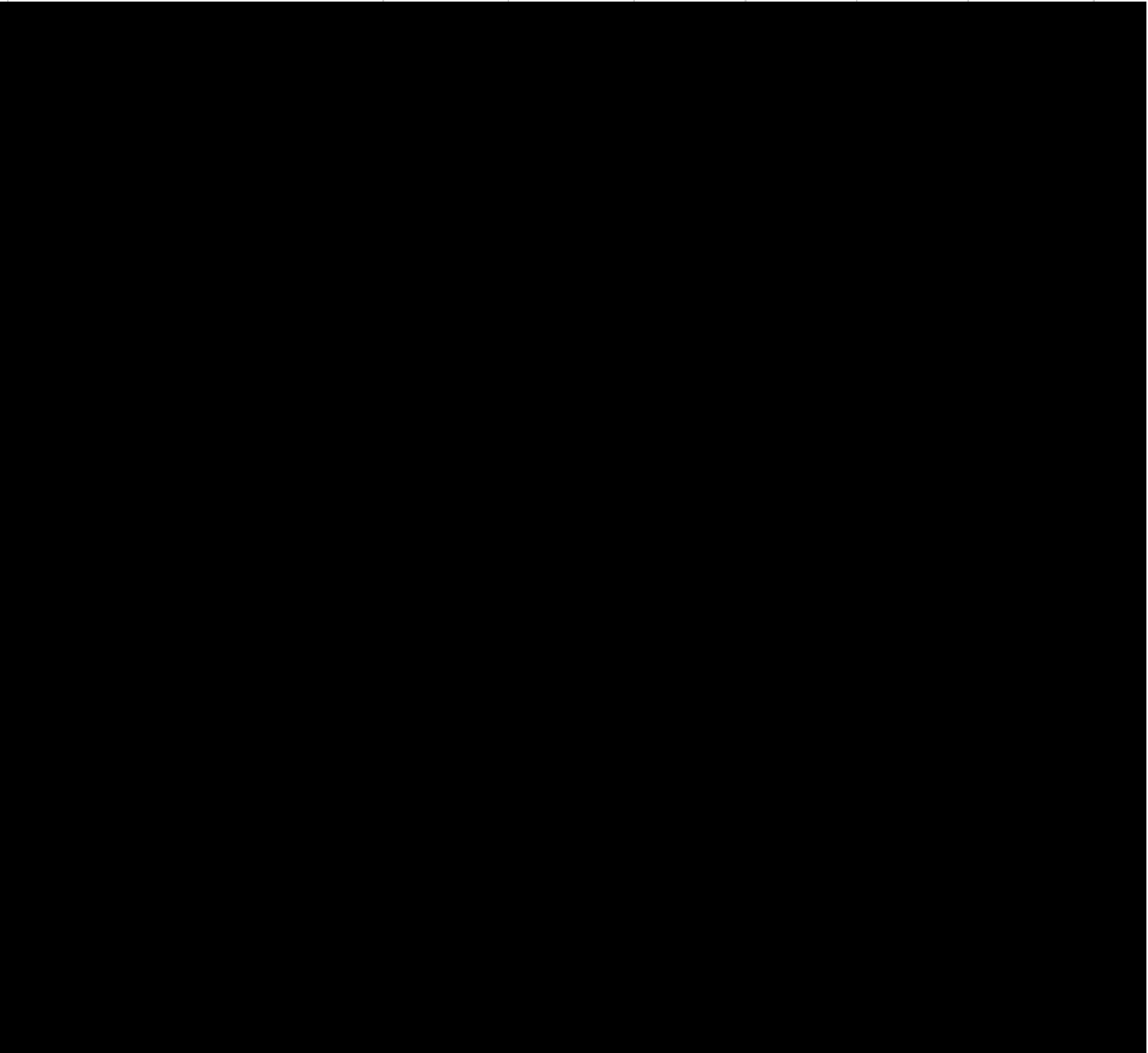
Returns from [REDACTED] were reviewed in order to recompute the required missing amounts in [REDACTED] return.

The [REDACTED] missing amounts were recomputed based on books and records examined for the [REDACTED] return and [REDACTED] returns reviewed.

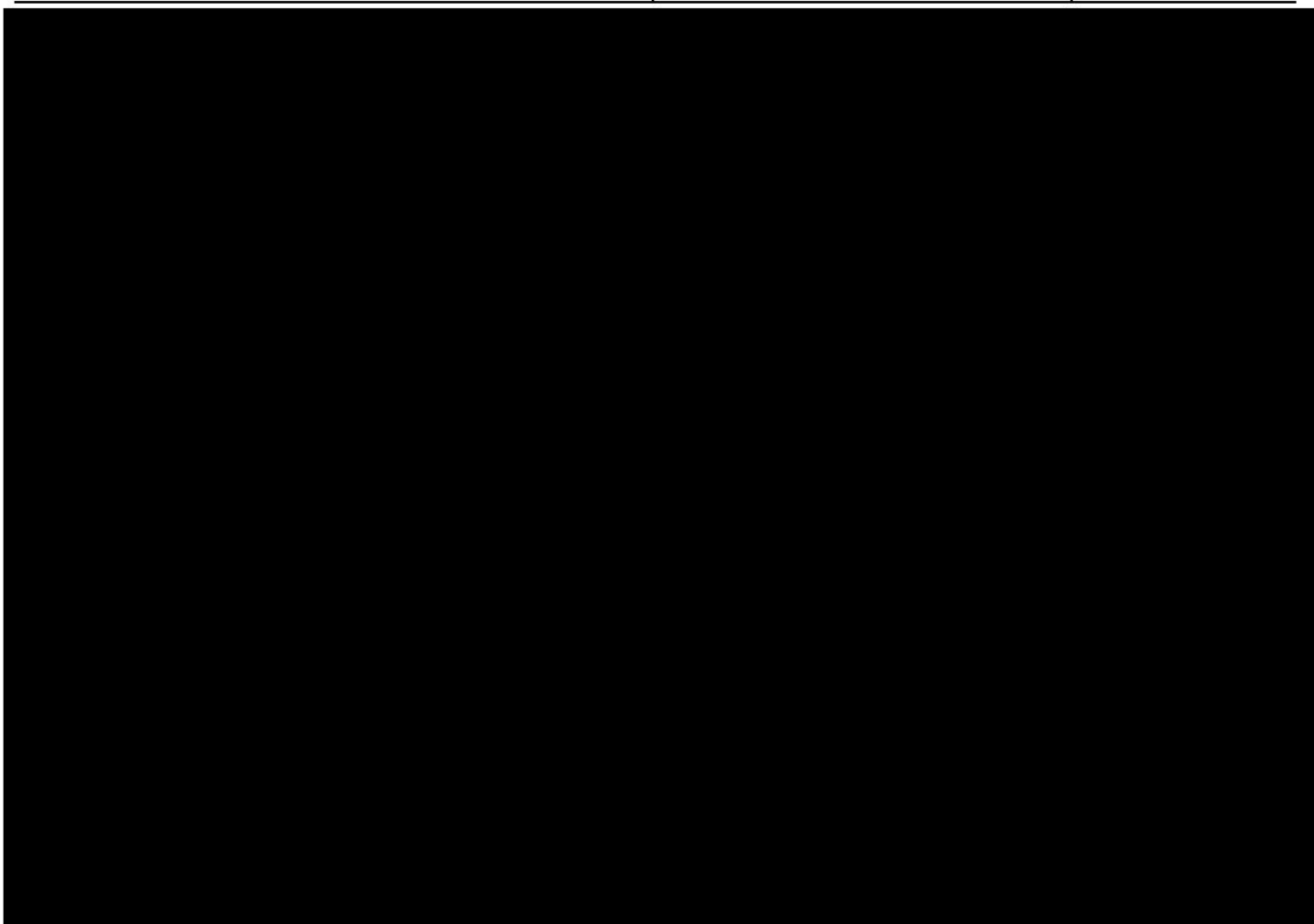
Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer <div></div>	Tax Identification Number (<i>last 4 digits</i>) <div></div>	Year/Period ended <div></div>

Returns from show similar pattern of reporting as the return.

The following is a reconstruction of the missing amounts from return -



Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]



Books and records examined for [REDACTED] return include the general ledger, some bank statements from [REDACTED] – [REDACTED]

Law

Section 501(c)(3) 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 to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

Section 4940(a) imposes 1.39% of the net investment income of a tax-exempt foundation.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
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Section 4940(c)(1) defines net investment income as the amount by which (A) the sum of the gross investment income and the capital gain net income exceeds (B) the deductions allowed by paragraph (3). Except to the extent inconsistent with the provisions of this section, net investment income shall be determined under the principles of subtitle A.

Section 4940(c)(2) defines gross investment income as the gross amount of income from interest, dividends, rents, payments with respect to securities loans (as defined in section 512(a)(5)), and royalties, but not including any such income to the extent included in computing the tax imposed by section 511. Such term shall also include income from sources similar to those in the preceding sentence.

Section 4940(c)(3)(A) allows ordinary and necessary expenses paid or incurred for the production or collection of gross investment income or for the management, conservation, or maintenance of property held for the production of such income, determined with the modifications set forth in subparagraph (B).

Section 4940(c)(3)(B) allows the following modifications: For purposes of subparagraph (A)—

- (i) The deduction provided by section 167 shall be allowed, but only on the basis of the straight line method of depreciation.
- (ii) The deduction for depletion provided by section 611 shall be allowed, but such deduction shall be determined without regard to section 613 (relating to percentage depletion).

Section 4940(d)(1) imposes no tax by section 4940 on any private foundation which is an exempt operating foundation for the taxable year.

Section 4942(a) imposes an excise tax on the undistributed income of a private foundation for any taxable year, which has not been distributed before the first day of the second taxable year following such taxable year a tax equal to 30% (15% before Pension Protection Act of 2006) of the amount of undistributed income.

Section 4942(b) provides that, where an initial tax is imposed on the undistributed income of a private foundation for any taxable year, if any portion of such income remains undistributed at the close of the taxable period, there is imposed a tax equal to 100% of the amount remaining undistributed at such time.

Section 4942(c) defines the undistributed income as the distributable amount for such taxable year, exceeds the qualifying distributions made before such time out of such distributable amount.

Section 4942(d) states the distributable amount equals the foundation's minimum investment return, reduced by any income taxes and the tax on net investment income imposed by Section 4940, increased by certain amounts listed in Section 4942(f)(2)(C).

Section 4942(e) defines the minimum investment return for any private foundation for any taxable year is 5 percent of the excess of—

- (A) the aggregate fair market value of all assets of the foundation other than those which are used (or held for use) directly in carrying out the foundation's exempt purpose, over
- (B) the acquisition indebtedness with respect to such assets (determined under section 514(c)(1) without regard to the taxable year in which the indebtedness was incurred).

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Section 4942(f)(2)(C) amounts are those received or accrued as repayments of amounts which were considered as a qualifying distribution for any taxable year, amounts received or accrued from the sale or other disposition of property to the extent that the acquisition of such property was considered as a qualifying distribution for any taxable year, and any amount set aside under Section 4942(g)(2) to the extent it is determined that such amount is not necessary for the purposes for which it was set aside.

Section 4942(g) defines a qualifying distribution as the payment that must -

- Accomplish one or more charitable purposes described in IRC Section 170(c)(2)(B),
- Be a reasonable and necessary administrative expense paid to accomplish one or more purposes in section 170(c)(2)(B),
- Not be paid to an organization controlled (directly or indirectly) by the foundation or a disqualified person connected to the foundation (with one exception), or
- Not be paid to a non-operating private foundation (with one exception).

Section 4942(h) Treatment of qualifying distributions

(1) In general, except as provided in paragraph (2), any qualifying distribution made during a taxable year shall be treated as made—

- (A) first out of the undistributed income of the immediately preceding taxable year (if the private foundation was subject to the tax imposed by this section for such preceding taxable year) to the extent thereof,
- (B) second out of the undistributed income for the taxable year to the extent thereof, and
- (C) then out of corpus.

For purposes of this paragraph, distributions shall be taken into account in the order of time in which made.

(2) Correction of deficient distributions for prior taxable years, etc.

In the case of any qualifying distribution which (under paragraph (1)) is not treated as made out of the undistributed income of the immediately preceding taxable year, the foundation may elect to treat any portion of such distribution as made out of the undistributed income of a designated prior taxable year or out of corpus. The election shall be made by the foundation at such time and in such manner as the Secretary shall by regulations prescribe.

Section 4942(i) Adjustment of distributable amount where distributions during prior years have exceeded income

(1) In general. If, for the taxable years in the adjustment period for which an organization is a private foundation—

- (A) the aggregate qualifying distributions treated (under subsection (h)) as made out of the undistributed income for such taxable year or as made out of corpus (except to the extent subsection (g)(3) with respect to the recipient private foundation or section 170(b)(1)(F)(ii) applies) during such taxable years, exceed
- (B) the distributable amounts for such taxable years (determined without regard to this subsection), then, for purposes of this section (other than subsection (h)), the distributable amount for the taxable year shall be reduced by an amount equal to such excess.

(2) Taxable years in adjustment period

For purposes of paragraph (1), with respect to any taxable year of a private foundation the taxable years in the adjustment period are the taxable years (not exceeding 5) immediately preceding the taxable year.

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Treas. Reg. § 1.501(c)(3)-1(a)(1) of the regulations provides that in order to be exempt as an organization described in section 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.

Treas. Reg. § 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 which accomplish one or more of such exempt purposes specified in section 501(c)(3). It is not so operated if more than an insubstantial part of its activities does not further those purposes.

Treas. Reg. 53.4942(a)-1(a) clarifies that tax under section 4942(a) or (b) is imposed on the private foundation.

Treas. Reg. 53.4942(a)-1(c)(1) defines the taxable period as, with respect to the undistributed income of a private foundation for any taxable year, the period beginning with the first day of the taxable year and ending on the earlier of the date of mailing of a notice of deficiency under Section 6212(a) with respect to the initial excise tax imposed under Section 4942(a) or the date on which the initial excise tax imposed under Section 4942(a) is assessed.

Treas. Reg. 53.4942(a)-2(a) defines undistributed income as the amount by which the distributable amount (defined in Section 4942(d)) for that taxable year exceeds the qualifying distributions (defined in Section 4942(g)) made before that time out of such distributable amount. The difference constitutes undistributed income of the taxable year.

Treas. Reg. 53.4942(a)-2(b)(1)(ii) states, a private foundation, other than an operating foundation, is required to distribute its distributable amount for each taxable year beginning after December 31, 1969. Distributable amount generally means a private foundation’s minimum investment return (an imputed return on non-charitable use assets), reduced by any taxes imposed under subtitle A and Section 4940.

Treas. Reg. 53.4942(a)-2(c) defines then minimum investment return as 5% of the excess of the aggregate fair market value of all assets of the foundation (other than those that are used or held for use directly in carrying out the foundation’s exempt purpose as described in Treas. Reg. 53.4942(a)-2(c)(3); or certain other assets which are excluded as described in Treas. Reg. 53.4942(a)-2(c)(2)) over the amount of the acquisition indebtedness for those assets (determined under Section 514(c)(1), but without regard to the taxable year in which the indebtedness was incurred).

Treas. Reg. 53.4942(a)-2(c)(5)(iii) states, for a taxable year shorter than 12 months, the minimum investment return is calculated by using a percentage equal to five multiplied by a fraction the numerator of which is the number of days in the short taxable year and the denominator of which is 365.

Treas. Reg. 53.4942(a)-3(a)(2) states, the required distributions must be qualifying distributions. In general, a qualifying distribution is any expenditure or grant, and certain set-asides, for charitable, educational, religious, or similar purposes (Section 170(c)(2)(B) purposes). Certain conditions and restrictions apply to payments to nonoperating foundations, controlled organizations, and certain supporting organizations.

Treas. Reg. 1.509(b)-1(b) states, if an organization is a private foundation on October 9, 1969, and it is determined that it is not exempt under section 501(a) as an organization described in section 501(c)(3) as

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Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

of any date after October 9, 1969, such organization, even though it may operate thereafter as a taxable entity, will continue to be treated as a private foundation unless its status as such is terminated under section 507. For example, X organization is a private foundation on October 9, 1969. It is subsequently determined that, as of July 1, 1972, X is no longer exempt under section 501(a) as an organization described in section 501(c)(3) because, for example, it has not conformed its governing instrument pursuant to section 508(e). X will continue to be treated as a private foundation after July 1, 1972, unless its status as such is terminated under section 507. However, if an organization is not exempt under section 501(a) as an organization described in section 501(c)(3) on October 9, 1969, then it will not be treated as a private foundation within the meaning of section 509(a) by reason of section 509(b), unless it becomes a private foundation on a subsequent date.

Taxpayer's Position

[REDACTED] representative, [REDACTED] stated that the [REDACTED] of the deceased preparer took over [REDACTED] task and [REDACTED] did not know how to prepare the return properly.

Government's Position

In order to be exempt under section 501(c)(3), an organization must be organized and 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). It is not so operated if more than an insubstantial part of its activities does not further those purposes.

The only required activity of a nonoperating private foundation is to make qualifying distributions of the distributable amount at the beginning of its tax years. As such, as a nonoperating private foundation, [REDACTED] was only required to make qualifying distributions totaling at least the required distributable amount at the beginning of its tax years.

Looking at the reconstructed "net value of noncharitable use assets" in [REDACTED] it was clear that [REDACTED] was financially capable of meeting its exempt requirement, yet somehow it failed to distribute the required amount for the tax year. [REDACTED] distributed only [REDACTED] out of the [REDACTED] required. In fact, [REDACTED] has failed to distribute the required amounts since the beginning of [REDACTED]. Of the \$ [REDACTED] [REDACTED] should have distributed in [REDACTED], \$ [REDACTED] was undistributed from [REDACTED] and \$ [REDACTED] was undistributed from [REDACTED]. By distributing just about [REDACTED] of the required amount in [REDACTED] it's arguable that [REDACTED] was engaged primarily in the activities furthering its purposes at all. In other words, more than an insubstantial part of its activities did not further its exempt purposes. In short, [REDACTED] did not operate exclusively for its exempt purposes. Consequently, [REDACTED] should not retain its exemption.

Once exemption is revoked, a private foundation becomes a taxable private foundation, subject to income tax by filing the form 1120 or 1041 in conjunction with the form [REDACTED]. A taxable private foundation remains subject to all chapter 42 taxes.

In this case, [REDACTED] as a taxable private foundation is required to file the 990-PF, make section 4942 distributions, and pay section 4940 tax. In addition, [REDACTED] needs to file Form 1041, U.S. Income Tax Return for Estates and Trusts to report and pay tax on its income such as receipts from rents and donations.

Form 886-A (May 2017)	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer [REDACTED]	Tax Identification Number (last 4 digits) [REDACTED]	Year/Period ended [REDACTED]

Relying on the work of an unqualified preparer doesn't absolve the responsibility of the taxpayer. [REDACTED] should have known the law. Additionally, it's difficult to understand why [REDACTED] did not exercise proper oversight of its return given the fact that it was prepared with numerous missing entries and/or computed with zeros even when clearly instructed by the form. Not only that, but [REDACTED] did not attempt to amend the poorly prepared return even with the knowledge that it may not have been prepared properly. In short, [REDACTED] was fully responsible for failing to meet its exempt obligations.

Conclusion

[REDACTED] exemption under section 501(c)(3) should be revoked because the organization failed to demonstrate that it operated exclusively for its exempt purposes. [REDACTED] was only required to make qualifying distributions of the required distributable amount at the beginning of its tax years. Even though it was financially well equipped, [REDACTED] only distributed just a tiny fraction of the required amount, or roughly [REDACTED]. Such meager distribution clearly showed that [REDACTED] did not engage primarily in activities furthering its exempt purpose as required under the law.

As a taxable private foundation, [REDACTED] is required to continue filing the form 990-PF and subject to all chapter 42 taxes such as section 4940 and 4942 taxes. In addition, [REDACTED] is required to file Form 1041, U.S. Income Tax Return for Estates and Trusts to report and pay tax on its income from [REDACTED] and all future tax years.