

Internal Revenue Service

Appeals Office

Date:

DEC 10 2015

Number: **201610026**

Release Date: 3/4/2016

ORG

Certified Mail

Department of the Treasury

Employer Identification Number:

Person to Contact:

Employee ID Number:

Tel

Fax:

UIL: 501.03-30

Dear :

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code (the "Code"). It is determined that you do not qualify as exempt from Federal income tax under section 501(c)(3) of the Code: effective January 1, 2009.

Our revocation was made for the following reasons:

You have not operated exclusively for one or more exempt purposes as required to be an organization described section 501(c)(3) of the Code. You operated in substantial part to provide tax benefits and assistance to private individuals by accepting donations of real estate with high stated appraised values. You re-sold the properties for less than one percent of the stated appraised value to other private individuals, without obtaining any independent appraisals of the property. While you have conducted activities that clearly further charitable purposes, your repeated conduct of the real estate sales activities impermissible accommodating private interests described above warrants the conclusion that you operated for a substantial purpose of benefitting private interests in contravention of the requirements for an organization to be described in section 501(c)(3), as set forth in Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii).

Contributions to your organization are not deductible under section 170 of the Code.

You are required to file Federal income tax returns on Forms 1120. File your return with the appropriate Internal Revenue Service Center per the instructions of the return. For further instructions, forms, and information please visit www.irs.gov.

If you were a private foundation as of the effective date of the adverse determination, you are considered to be taxable private foundation until you terminate your private foundation status under section 507 of the Code. In addition to your income tax return, you must also continue to file Form 990-PF by the 15th Day of the fifth month after the end of your annual accounting period.

Processing of income tax returns and assessments of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Code.

We will make this letter and the proposed adverse determination letter available for public inspection under Code section 6110 after deleting certain identifying information. We have provided to you, in a separate mailing, Notice 437, *Notice of Intention to Disclose*. Please review the Notice 437 and the documents attached that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code in one of the following three venues: 1) United States Tax Court,

2) the United States Court of Federal Claims, or 3) the United States District Court for the District of Columbia. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules for filing petitions for declaratory judgment. To secure a petition form from the United States Tax Court, write to the United States Tax Court, 400 Second Street, N.W., Washington, D.C. 20217. See also Publication 892.

You also have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States Court. The Taxpayer Advocate can however, see that a tax matters that may not have been resolved through normal channels get prompt and proper handling. If you want Taxpayer Advocate assistance, please contact the Taxpayer Advocate for the IRS office that issued this letter. You may call toll-free, 1-877-777-4778, for the Taxpayer Advocate or visit www.irs.gov/advocate for more information.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely Yours,

Appeals Team Manager

cc

Enclosure: Publication 892

Internal Revenue Service
Tax Exempt and Government Entities Division
Exempt Organizations: Examinations
1100 Commerce Street, MC 4980 DAL
Dallas, TX 75242

Department of the Treasury

Date:

June 19, 2014

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Manager's name/ID number:

Manager's contact number:

Response due date:

ORG

Certified Mail – Return Receipt Requested

Dear ,

Why you are receiving this letter

We propose to revoke your status as an organization described in section 501(c)(3) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

What you need to do if you agree

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(3).

After we issue the final revocation letter, we'll announce that your organization is no longer eligible for contributions deductible under section 170 of the Code.

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 revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

Effect of revocation status

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

What you need to do if you disagree with the proposed revocation

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You also may file a protest with the IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter.

The 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, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

Contacting the Taxpayer Advocate Office is a taxpayer right

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service
Office of the Taxpayer Advocate

For additional information

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

For Mary A. Epps
Acting Director, EO Examinations

Enclosures:
Report of Examination
Form 6018
Publication 892
Publication 3498

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or edition
Name of taxpayer	Tax Identification Number	Year/Period ended	

ISSUE

Is _____ operating exclusively for charitable and educational purposes under Section 501(c)(3) of the Internal Revenue Code (IRC)?

FACTS

Form 1023

_____ filed Form 1023, Application for Recognition of Exemption, on March 29, 20____. Based upon this filing, Internal Revenue Service granted exempt status under IRC section 501(c)(3) to _____ on May 6, 20____.

Part IV of the Form 1023 provided narrative a description of activities as follows:

"The mission of the _____ is to assist underprivileged school children to realize their educational goals through the direct donation of essential materials such as pencils. The activities will be conducted by uncompensated volunteers, at least annually. The primary focus of these activities will be the rural areas of _____. This activity is in furtherance of the _____ charitable support of education; it will occupy _____ % of the _____ time. The _____ will seek broad based public support from individuals in its home base of _____."

Part VIII of the Form 1023 stated that _____ would solicit funds from individuals and foundation grants.

Trust

The _____ A Charitable Trust, was signed on December 12, 20____. General charitable operational procedures were provided in the Trust, and no specific charitable purpose of was provided in the Trust.

Current Activities

During the examination of _____ it was disclosed that the following activities were conducted during the exam year.

- o Shipping school supplies to _____ delivered uniforms, shoes, school supplies, and tuition to school children in _____ during the years of examination. For the year examined, total value of delivered goods was \$\$\$.
- o Facilitation of property donations and transfers.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	

The examination identified properties that were transferred between individuals and during the years of examination.

The properties were located in different counties of and are listed below by property tax parcel number.

- County, - Parcel #
- County, - Parcel #
- County, - Parcel #

Quitclaim Deeds and Forms 8283 for the properties are summarized below:

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on December 22, 20¹ by (Grantor) to (Grantee).
- Form 8283, signed on December 28, 20 by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on December 28, 20 by (Grantor) to (Grantee).
- Form 8283, signed on December 28, 20 by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on December 29, 20 by (Grantor) to (Grantee). The Deed also provided that received \$, paid by , as the consideration.
- Quitclaim Deed executed on December 30, 20 by (Grantor) to (Grantee).
- Form 8283, signed on December 30, 20 by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on February 15, 20² by (Grantor) to (Grantee). The Deed also provided that received \$ paid by , as the consideration.

¹ The information was obtained from related IRS audit.

² The Quitclaim Deeds were voluntarily provided to IRS during the examination.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records, and county property records.

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on May 26, 20² by _____ (Grantor) to _____ (Grantee).
- Form 8283, signed on May 26, 20³ by an officer of _____, listing a property appraised value of \$ _____.
- Quitclaim Deed executed on December 10, 20⁴ by _____ (Grantor) to _____ (Grantee). The Deed also provided that the Grantor received \$ _____, paid by _____ for the consideration.

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records, and county property records.

³ The Form 8283 was voluntarily provided to IRS during the examination.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on December 27, 20 by (Grantor) to (Grantee).
- Form 8283, signed on December 27, 20 by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on December 29, 20 by (Grantor) to (Grantee). The Deed also provided that the Grantor received \$, paid by , for the consideration.
- Quitclaim Deed executed on December 30, 20 by (Grantor) to (Grantee).
- Form 8283, signed on December 30, 20 by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on February 15, 20 by (Grantor) to (Grantee). The Deed also provided that the Grantor received \$, paid by , for the consideration.

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records, and county property records

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on July 1, 20¹ by _____ (Grantor) to _____ (Grantee).
- Form 8283, signed on July 1, 20¹ by an officer of _____, listing a property appraised value of \$ _____.
- Quitclaim Deed executed on October 27, 20¹ by _____ (Grantor) to _____ (Grantee). The Deed also provided that the Grantor received \$ _____, paid by _____, for the consideration.
- County Assessor website provided information indicated that the property was sold from _____ to _____ for \$ _____ on November 16, 20¹.
- Quitclaim Deed executed on December 9, 20² by _____ (Grantor) to _____ (Grantee).
- Form 8283, signed on December 9, 20² by an officer of _____, listing a property appraised value of \$ _____.

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records, and county property records

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer		Tax Identification Number	Year/Period ended

1

2

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on June 25, 20 by (Grantor) to (Grantee).
- Form 8283, signed on June 25, 20 by an officer of listing a property appraised value of \$
- Quitclaim Deed executed on July 13, 20 by (Grantor) to (Grantor). The Deed also provided that the Grantor received \$, paid by , for the consideration.
- Quitclaim Deed executed on August 30, 20 ² by (Grantor) to (Grantee).

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	

- Form 8283, signed on August 30, 20⁹ by an officer of _____, listing a property appraised value of \$ _____.
- Quitclaim Deed executed on December 10, 20² by _____ (Grantor) to _____ (Grantee). The Deed also provided that the Grantor received \$ _____, paid by _____, for the consideration.

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records, and county property records

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on May 26, 20² by _____ (Grantor) to _____ (Grantee).
- Quitclaim Deed executed on December 10, 20² by _____ (Grantor) to _____ (Grantee). The Deed also provided that the Grantor received \$ _____, paid by _____, for the consideration.

The flowchart below is based on the Quitclaim Deeds, IRS Internal records, and _____ county property records

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on December 27, 20¹ by _____ (Grantor) to _____ (Grantee).
- Form 8283, signed on December 27, 20¹ by an officer of _____, listing a property appraised value of \$ _____.
- Quitclaim Deed executed on May 10, 20¹ by _____ (Grantor) to _____ (Grantor). The Deed also provided that the Grantor received \$ _____ paid by _____, for the consideration.
- Quitclaim Deed executed on May 26, 20² by _____ (Grantor) to _____ (Grantee).
- Quitclaim Deed executed on December 10, 20² by _____ (Grantor) to _____ (Grantee). The Deed also provided that the Grantor received \$ _____, paid by _____, for the consideration.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended

Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on December 28, 20 by (Grantor) to (Grantee).
- Form 8283, signed on December 28, 20 by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on December 29, 20 by (Grantor) to (Grantee). The Deed also provided that the Grantor received \$, paid by , for the consideration.
- Quitclaim Deed executed on December 30, 20 by (Grantee) to (Grantee).
- Form 8283, signed on December 30, 20 by an officer of , listing a property appraised value of
- Quitclaim Deed executed on February 15, ² by (Grantor) to (Grantee). The Deed also provided that the Grantor received \$, paid by , for the consideration.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records and county property records

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on December 28, 20 by (Grantor) to (Grantee).
- Form 8283, signed on December 28, by an officer of listing a property appraised value of \$
- Quitclaim Deed executed on May 10, 20 by (Grantor) to (Grantee). The Deed also provided that the Grantor received \$ paid by for the consideration.

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records and county property records

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended

County Property Parcel:

Quitclaim Deeds provided by the organization revealed:

- Quitclaim Deed executed on December 27, 20 by (Grantor) to (Grantee).
- Form 8283, signed on December 27, 20 by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on May 10, 20 by (Grantor) to (Grantor).
The Deed also provided that the Grantor received \$, paid by , for the consideration.
- Quitclaim Deed executed on May 26, 20 ² by (Grantor) to (Grantee).
- Form 8283, signed on May 26, 20 ³ by an officer of , listing a property appraised value of \$
- Quitclaim Deed executed on December 10, 20 ² by (Grantor) to (Grantee).
The Deed also provided that the Grantor received \$, paid by , for the consideration.

The flowchart below is based on the Quitclaim Deeds, Forms 8283, IRS Internal records and county property records

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	

Meeting Minutes

An interview with _____, a trustee of _____, secretary of _____ and _____, a trustee of _____, was conducted on April 29, 20____ by Agent _____. Indicated that _____, a former trustee of _____, was the one that used to take the minutes. He mentioned that _____ was his companion and was very involved with the organization. She has passed away.

The meeting information that provided to IRS was agendas, and not the minutes.

The agendas that were provided to IRS listed shipping supplies, storage, fundraising, websites, and other items of meeting discussion.

No property transfer transactions of _____ were listed as an item of discussion in the meeting agendas for the years under examination.

Forms 990

_____ submitted an electronic registration Form 990N (ePost) card for the years 20____ and 20____. No Form 990 was filed by _____.

Financial Information

_____ had one bank account (acct # xxxxx4445) in a _____ Bank in the years under examination.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended

provided copies of bank statements. The deposits and expenses are summarized below:

	20	20
Beginning Balance		
Total Deposits		
Total Withdrawals & Expenses		
Ending Balance		

The financial information provided that received the proceeds from property sales were \$ and \$ in the year 20 and 20 , respectively.

Interview with board member / officer

o April 29, 20 Interview

The interview was conducted by IRS agents with the following individuals:

- , Executive Director
- , Director
- , Secretary
- , Trustee
- Power of Attorney

A question regarding the selling price of the properties and the appraisal value was asked. answered, "We knew about the appraisal value, but did not think much of it. They were just pleased that they were receiving \$. For the organization, \$ is a significant amount that would help them support their exempt purpose. They stopped doing these transactions once they were questioned by the IRS."

was asked the question, "Explain the consequences when the organization sells the property extremely below the FMV. The contributor of the property gets a substantial charitable contribution for the donation, and the buyer will benefit of purchasing the land extremely below appraisal value which bring the value of the property lower than it really is." reiterated that, "\$ is a very substantial amount for their budget, therefore they were motivated to be part of these transactions since they were under the impression there was nothing wrong about them. He explained that the Promoter approached them with a donor, which donated the properties, and provided a buyer that would buy them for roughly \$. He stated that the money went for charitable purpose. "

A question asked to regarding the receipts for the property transactions that were given to the buyers and donors. responded that, "No receipts were given; only the thank-you note, where it stated the contribution amount and the selling price. Moneys from the sale of the properties can be traced to their Account."

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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was asked, "Was the board aware they had signed form 8283 that stated the appraisal value of the properties that were donated, and that amount it was sold for?" replied that, "He was told that the properties were worthless and that he felt that the real worth of the property is the amount the market is willing to pay." also indicated that he acknowledged that the transaction might appear questionable, but at the time he felt that there was nothing wrong with them.

A question regarding the sale value vs. an appraisal value on the Form 8282 and Form 8283 was asked to replied that she was not aware of the appraisal value, and was given all the forms already pre-filled by . All she did is sign them. She explained further that we were given the filed out Quitclaim-deeds, and we took the Quitclaim-deeds to get them notarized at the bank. also added that prepared all the paper work and Quitclaim-deeds for all the transactions. All we did was sign them and/or get them notarized. We were not involved in the process of the seller-buyer negotiation.

• October 24, 20 Interview

An interview was conducted with , a board member of

The following are questions asked to, and answers provided, by

Q: Did the have a letter agreement with that basically says that the would accept properties if could assure to find the buyers for the properties. And if could not find the buyers, then would have to buy it back from the ?

A: I do not recall anything like that.

Q: Did the board ever contact the donors before or after the donation? If no, why?

A: No. said not to worry about thanking the Donors, just thank me. I never talked to them or e-mailed them, it was just between and myself.

Q: Did the board ever try to contact the buyer to negotiate the sale price? If yes, explain. If no, why?

A: No. That is part of the oral agreement with that he would try to find a buyer, so the organization does not have to do it.

Q: Use the property (Parcel ID:) as an example. The Form 8283 signed by your organization indicated that you knew the appraisal value of the property was \$. Please explain why the board agreed to exchange a property worth of \$ for \$.

A: Because that was the agreement with

Q: Did the ever try to sell the property on the market? If yes, explain. If no, why?

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
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A: No. That is part of the oral agreement with that he would try to find a buyer, so the organization does not have to do it.

Interview with a third party

An interview was conducted with by the examiner on October 23, 20 .

The following are the questions asked to and answers provided by

Q: How do you know The ?

A: My friend he spoke of the for years.

Q: What is the relationship between you and The ?

A: No specific relationship. I just help friends and family that owned properties that do not want to own the properties anymore. So, they decided to make the charitable donation.

Q: Had you owned these properties prior to 20 ? If yes, how and when did you acquire these properties?

A: Yes. I owned all of those properties and I need to check my records for exact day. I acquired through tax sales.

Q: Did you market those properties to the buyers? If yes, how?

A: I tried to sale them, but I could not. I could not keep them because I could not afford the real estate taxes. So, I offer deals to my friends that I would convey the property to the buyer and the buyer paid the property taxes. If the property sold, then the buyer would get half of the proceeds after they first got their property taxes and fees back.

Q: Did you have any agreements between you and The regarding the property transfers? If yes, please explain.

A: Yes. We have a letter agreement. The agreement basically says that the would accept properties if I could assure to find the buyers. And if I could not find the buyer, then I have to take it back for a small amount. So, the charity ends up with some cash amounts.

Q: Who was the appraiser of these properties that were deeded in and out of The ? Who paid the appraiser?

A: was the appraiser. I paid for the appraisal fees and the property owners reimbursed the appraisal fees back. The appraisal fees were arranged from \$ -\$

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
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Q: What documents did you prepare for each of the transactions? Quitclaim Deed, Form 8282, Form 8283?

A: *I prepared the quitclaim deed. I partially prepared Forms 8283, and I prepared the Forms 8282.*

Q: The properties were sold at a much lower amount than the appraised fair market value, according to the Forms 8283 that were prepared and filed with IRS. Can you tell why?

A: *The market is depressed.*

LAW

IRC §501(a) provides, in part, that organizations described in IRC §501(c) are exempt from federal income tax. Section 501(c)(3) of the Code describes, in part, an organization that is organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Treasury Regulations §1.501(c)(3)-1(a)(1) states 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.

Treasury Regulations §1.501(c)(3)-1(c)(1) states 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.

Treasury Regulations §1.501(c)(3)-1(c)(2) states that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Treasury Regulations §1.501(a)-1 defines "private shareholder or individual" as a person "having a personal and private interest in the activities of the organization."

Treasury Regulations §1.501(c)(3)-1(d)(1)(ii) states that an organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (i) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended

GOVERNMENT'S POSITION

It is the Government's position that the organization has failed to meet the operational test described in Treasury Regulation Section 1.501(c)(3)-1(c)(1). In order to continue tax-exempt status an organization must prove that it is operated exclusively for tax-exempt purposes and that no part of its net earnings inured to the benefit of any private individuals.

The government does not contest that _____ delivered uniforms, shoes, school supplies, and tuition valued at \$XXXXX to school children in _____ during the years of examination.

However, _____ was also providing a significant private benefit to donors by participating in and facilitating an abusive property donation scheme that was promoted by _____ in the years under examination. The property donation scheme involves _____ properties owned by _____ and _____ or more participants.

In this scheme, _____ sold a piece of real property to a donor for a very small price; the donor held the property for a year and then donated the property to the _____. As soon as the property was donated to the _____, the _____ sold the property for a small dollar amount, while contemporaneously executing documents showing a high appraised value of the donation. Although the exempt organization received a small amount from these transactions, it is clear that the primary purpose of the transactions was to provide inflated charitable contributions to donors. Most properties were transferred to the exempt organization, then sold within days. Properties were then either donated to the organization again, by another donor, or sold back to _____ for the same low price. The donors who made the real property donation(s) to _____ then claimed non-cash deductions on their Forms 1040.

All transactions were created on a QUITCLAIM DEED. All transactions started with _____ and eventually ended with _____ receiving the same property back into his ownership. All properties found, are located in _____. All sales or transfers occur in _____ or another state, i.e. all transactions cross state lines. All properties were sold for \$ _____ or less, usually for \$ _____. All participants who made the real property donation(s) took appraisal value reported on form 8283 as deduction(s) on their Form 1040, Schedule A under Non Cash Donations for the years under examination. The participants, identified at this time, usually partake in this property donation scheme more than once.

_____ has failed to show that it is "operated exclusively" for one or more exempt purposes because:

- o _____ is not organized and operated exclusively for religious, charitable, educational or any other §501(c)(3) purpose.
- o _____ is not organized and operated exclusively for public purposes.
- o _____ is operated for the benefit of private individuals.

_____ participated in and facilitated an abusive property donation scheme. The fact that _____ engaged in some charitable work was not enough to receive continued recognition as an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax identification Number		Year/Period ended

CONCLUSION

The tax exempt status of _____ under Section 501(c)(3) of the Internal Revenue Code should be revoked because the organization has not established that it is observing the conditions required for the continuation of its exempt status as operating exclusively for 501(c)(3) purpose.

The effective date of proposed revocation is January 1, 20____, the first day of the tax year under examination.