



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

Date:  
April 28, 2022  
Taxpayer ID number:

Form:

Number: **202248016**  
Release Date: 12/2/2022

Tax periods ended:

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

UIL: 501.03-00

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

**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 . Your determination letter dated , is revoked.

Our adverse determination as to your exempt status was made for the following reasons: You have failed to provide adequate documentation to establish that you are organized and operated exclusively for exempt purposes within the meaning of IRC Section 501(c)(3) and that no part of your net earnings inures to the benefit of private shareholders or individuals.

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 [www.irs.gov](http://www.irs.gov).

Contributions to your organization are no longer deductible under IRC Section 170.

**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 may file an action for declaratory judgment under the provisions of IRC Section 7428 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.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. You may write to the courts at the following addresses:

United States Tax Court  
400 Second Street, NW  
Washington, DC 20217

U.S. Court of Federal Claims  
717 Madison Place, NW  
Washington, DC 20439

U.S. District Court for the District of Columbia  
333 Constitution Ave., N.W.  
Washington, DC 20001

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.

**Information about the IRS Taxpayer Advocate Service**

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 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. Contact your local Taxpayer Advocate Office at:

Or call TAS at 877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to [taxpayeradvocate.irs.gov](http://taxpayeradvocate.irs.gov). Do not send your federal court pleading to the TAS address listed above. Use the applicable federal court address provided earlier in the letter. Contacting TAS does not extend the time to file an action for declaratory judgment.

**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.

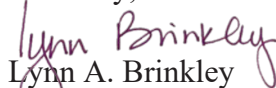
Find tax forms or publications by visiting [www.irs.gov/forms](http://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676).

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.

Keep the original letter for your records.

Sincerely,



Lynn A. Brinkley  
Acting Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892





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

Date:  
12/01/2021  
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:  
ID number:  
Telephone:  
Fax:  
Address:

Manager's contact information:

Name:  
ID number:  
Telephone:

Response due date:

**CERTIFIED MAIL – Return Receipt Requested**

Dear \_\_\_\_\_ :

**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.

**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](http://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](http://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,

Supervisory IRS Agent EO \_\_\_\_\_,  
Exempt Organizations Examinations

**Enclosures:**

Form 886-A  
Form 6018  
Form 4621-A  
Pub 892  
Pub 3498





Form <b>886-A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule number or exhibit
Name of Taxpayer	Tax Identification Number (last 4 digits)	Year/Period Ended

4. To help teach people to start businesses so they can create jobs and provide for themselves. There has been a consistent effort by to help people start businesses.

conducted their own activities in the early years. However, because of the diminished financial support, focus now is on providing financial support.

maintains an active website at . This four-page website contains two primary pages. The homepage contains a "What We Do" section and the information on " that is currently conducting as one of their activities in . Website also contains a "contact" link and a "donate" button.

(hereinafter " "), a domestic organization, works in conjunction with (hereinafter " "). is a separately organized foreign entity. was organized in as an and operates from the city of . does not work with any domestic exempt organization(s).

, Treasurer stated in the initial interview, held on , that is a "Sister organization" to , and that the two organizations are "related spiritually." , Board Chairman stated in the interview, held on , that is an arm of in , and that there is " relationship between entities."

manager on the ground, ( ), carries out the mission on behalf of . supplies and workers (of his choosing) funds and materials for services he ( ) provides to the people of . provides the funds to via wire transfers with expectations on how to spend the money. Once the money is received, is given control and discretion over funds and how to spend them (purchase materials and distribute them).

, Treasurer informed us that provides a monthly report to on how he spent the money. No supporting documentation for spent funds is sent with the report and none is required by the Board of Directors. However, part of the accounting submits in addition to the reports are pictures, which are forwarded to the Chairman of the Board. stated that no written contracts or agreements exist between , , and .

, Treasurer informed us that compensates for the work he does on their behalf. Compensation is \$ dollars (\$ /year) a month minus expenses. 's salary is part of the quarterly allocation which is based on expense reports submits to

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does not have an official leadership or employment role within . is not listed on the return or the annual reports as one of the officers or directors of the . However, website contains a picture of the current officers and on the homepage of "What We Do" section.

The return provides that no salaries, other compensation, and employee benefits were paid out during the year. As stated before, no written formal compensation agreement exists between and . During the exam we found no specific amounts referenced in the general ledger or bank transactions as payments to .

Copies of all progress and expense reports, including pictures, that ( ) submitted to . ( ) between through to the last report available were requested for the exam in the information document request dated .

The response from the organization to this information document request stated that the monthly information reports have been provided before. We noted one instance of expenses and other money matters mentioned by in the emails (meeting minutes). Schedule O of

Form for provided that total funds expended to operations was \$ . No other expense reports were noted in the meeting minutes or provided by the organization.

Expenses and other money matters in the meeting minutes for related to the following:

1.
  - a. Registration \$ a year due now. asked if can fund this expense because he did this on his expense last year.
  - b. Auto insurance \$ a year due now.
2.
  - a. Cost was \$ ( ).
3. Government
  - a. explains that they can get one for \$ and one for \$ .
4. An unidentified individual was requesting if she can get months \$ support or if the board can help her get her for the school and home.
5. was asking if the board can look into increasing allocation for calls and internet because Government increased taxes on both companies that force to also increase their tariff by %.
6. Revenue Authority ) taxes on withholding increase due to the high rate, causing take home pay to decrease at \$ or \$ at a time.



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7. Trash pickup is \$     per month.

8.     was asking for an increase in salary.     provided salary breakdown and take-home pay.

9.     Registration - \$     due to complete the registration process.

10.     accreditation - \$     .

Note: The     for     (     ) is a standard developed by the     ) to describe the protocols for second-generation (2G)     networks used by     such as     and     .

### Wire Transfers

provided copies of wire transfer statements that were completed through their bank account. These wire transfer statements list the recipient of funds is an individual named     .     (     ) is the President of     and the     of     .     , Treasurer is listed as the originator of the wire transfers.     does not appear as the recipient on the wire transfer statements. Additionally, wire transfers are sent to     . Our web research indicates this address belongs to a company called     .     is a registered     , standard travels and tours agency in     .     handles all aspect of travels and tours related business such as booking for flight tickets, securing transit and tourist VISAS.

officers     and     stated in the interview held on     that the wire transfers are sent to     account in     .     stated that she lived in     for     years. In the last     years that she lived there she helped with     . During that time, this wire transfer account was set up.     set it up in her name and is the primary beneficiary.     is the secondary person listed on the account. The account was set up this way so that either one (     ) can handle the transactions in     .     and     stated that     is the one who handles the money in     .     stated that she last travelled to     in     .

explained that     location contains various kinds of business and homes.     was also     address when     lived in     .     and     further explained that     might be able to change recipient's address for the wire transfers. However, they have been hesitant to do so and kept it the same all these years because wiring funds to     is a complicated process.

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Wire transfers to totaled \$ in . Expenses incurred in the United States totaled \$ . Total Expenses reported for were \$ .

### Annual Registration

During the interview with , held on , stated that has to file an annual registration with the government. Part of that registration included submitting an annual report to the government. However, when copies of these annual reports were requested for review, , who is responsible for renewing these annual registrations, informed us that when applying for these certificates, no report is submitted, only a photocopy of the past year's certificate. Our web research indicates that there is a type of annual report that needs to be submitted to the government.

During the interview, conducted on , also stated that there is a report that needs to be filed every year. stated that she believed the copies of these reports can be located and provided for the exam. Copies of the , and reports filed with the government were requested in the information document request but never provided by .

provided the following certificates handed out to by the government:

- Certificate of Re-Accreditation for and .
- Certificate of Business Registration (Non for Profit (NGO)) for , and .

However, as stated, never provided copies of reports that were submitted by to the government to be granted these aforementioned certifications.

### Property

"Property" is the name of the compound from which operates.

The following information has been gathered about the property:

Property is in , in the city of .

It is a acre walled off property.

owns and operates from the property.

company operates from the property.

, an in , is another organization that uses this property. in villages ( ). extended an invitation to to use this property

after they got evicted from another property they used by the government. The government claimed the other property for themselves.

In the response to the information document request, dated , explained that they provided the funds to acquire the property but the property has never been titled to . stated that the property has always belonged to the because the

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legal code does not allow \_\_\_\_\_ of \_\_\_\_\_. \_\_\_\_\_ states that since they do not own the property, they do not have continuing financial interest in the said property. In the initial interview \_\_\_\_\_, Treasurer stated that \_\_\_\_\_ board and \_\_\_\_\_ make decisions on how the property is used. \_\_\_\_\_ helps maintain the \_\_\_\_\_ property on behalf of \_\_\_\_\_ by sending money to \_\_\_\_\_ to keep the property going. \_\_\_\_\_ stated that there are \_\_\_\_\_ guest houses on the property. One is occupied by \_\_\_\_\_ and the other is occupied by \_\_\_\_\_. \_\_\_\_\_ also has a business located on the property; "\_\_\_\_\_ " which is discussed later in this report.

Meeting minutes discuss \_\_\_\_\_ property and whether the officers/board should allow \_\_\_\_\_ to build a personal residence on the property. \_\_\_\_\_ asked the officers/board to be allowed to build on the property. Meeting minutes list one of the benefits of having \_\_\_\_\_ living onsite would be an increase in the oversight of the property. During the interview with \_\_\_\_\_, \_\_\_\_\_ stated \_\_\_\_\_ will allow \_\_\_\_\_ to build a personal residence for himself on the property. \_\_\_\_\_ planned to pay for the building himself.

Review of emails exchanged between officers/directors (meeting minutes) identified that \_\_\_\_\_ was asking for an increase in his salary. \_\_\_\_\_ officers/directors discussed the rental potential of the \_\_\_\_\_ property and giving \_\_\_\_\_ a percentage of rentals as a bonus to his salary. In the initial interview with \_\_\_\_\_ conducted on \_\_\_\_\_, \_\_\_\_\_ stated that there are no rental agreements or any other legally binding agreements between his organization and any other entity/individual that currently has right to use this property.

Subsequent web research and interview with \_\_\_\_\_ and \_\_\_\_\_ discovered that \_\_\_\_\_ rents the \_\_\_\_\_ guest houses on the \_\_\_\_\_ property. Our web research shows listings of guest room \_\_\_\_\_ and \_\_\_\_\_ are advertised on \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ websites. Rooms are listed as "\_\_\_\_\_ " type accommodation and the listings indicate that anyone can rent these rooms.

\_\_\_\_\_ and \_\_\_\_\_ stated in the interview, conducted on \_\_\_\_\_, that rooms are rented to various visitors to \_\_\_\_\_ who provide important social service and aid to programs and people. The rental program started in \_\_\_\_\_, and the monthly information reports prepared by \_\_\_\_\_ in \_\_\_\_\_ reflect the rental income \_\_\_\_\_ has received during the month.

In the response to the information document request, dated \_\_\_\_\_, \_\_\_\_\_ states that none of the rental income accrues to or is transferred to the \_\_\_\_\_. Rental income provides for operating and maintenance cost of the Compound in \_\_\_\_\_. There are no lease, rental, or service agreements. Rooms are rented on a daily cash basis in \_\_\_\_\_. There are no codified restrictions for rental of rooms.

Additionally, there are no specific reports regarding progress and expense relative to the rental activity. \_\_\_\_\_ reports \_\_\_\_\_ gross income from rentals on the monthly information reports.

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does not functionalize reporting for the rental rooms; thus, all expensed of the various activities are provided on an object account basis.

Information document request provided the rental income reported by as follows:

a)	\$
b)	\$
c)	\$
d)	\$
e)	\$
f)	\$
g)	\$
h)	\$
i)	\$
Total	\$

### Project

website describes this project as a four-step project. The website provides the following information:

- STEP 1
  -

- STEP 2
  -

- STEP 3
  -

- STEP 4
  -

Email discussions (meeting minutes) provide the following information on the project:

- Establish a baseline with reported cases of for children and young adults.

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- Provide a bio-based insect repellent for two orphanages in during the duration of the peak season ( through ) for .
- Ensure that daily applications and proper use of the product is being maintained.
- Track the product applications and monitor the health of each of the participants.
- Document the results of the project and identify any improvements needed.
- Establish next steps and future projects in .

- The short-term goal is to validate the effectiveness of the product during the season. The product is not intended as a replacement to current methods of prevention. , , and are all key components to an effective strategy in combating and should be maintained if they are already in use. The is considered to be yet another layer in the defense strategy.
- The long-term goal is to create microbusinesses to provide employment for the people through local packaging and distribution of the product. The long-term goal would be to setup portable local manufacturing in . The result of local manufacturing would be the ability to manufacture in and produce the product at a cost-effective rate. The expectation is local manufacturing would result in an increase in employment, facilitate commerce and help improve the health of the people through use of the product.

is engaged in a business endeavor via a company he created called “ ”. is a foreign organization incorporated by and operated from the property in . is working on manufacturing and selling a brand of a using raw materials, manufactured in the United States, by a for-profit company called .

officers/directors referred to the “ ” and “ ” as the same activity.

is a for-profit corporation, originally formed in . It merged with a corporation of the same name in . It is currently operating out of as a foreign corporation. website states that they “

.” stated that is currently unable to manufacture their repellent in U.S. due to struggles with EPA regulations. Our web research indicates that is struggling with EPA regulations. Meeting minutes show that officers/directors conducted meetings with founder to discuss history and its connection to

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. Meeting minutes also show that board and officers discussed marketing and selling a brand of called . Our web research indicated that has manufactured a product under the label. loaned the funds to to get the business started. We noted transaction number in the general ledger that was recorded on . Transaction is described as "Registration of corporation". This transaction debited " : Start up Costs" account for \$ and credited " : " account for \$ . Wire transfer to then occurred on , for \$ .

In the response to the information document request, dated , states that transaction was the recording of the wire transfer on of \$ sent to , included was \$ to pay the registration of the , " . stated that there is no source document (an invoice, receipt, etc.) for this transaction. Funds were sent to the bank which were used by to pay the registration fees. was recipient of the funds. There are no organizing documents for the Corporation held in the US corporation.

and both stated that business is almost operational. stated that and officers/board have weekly contacts/conversations about and work on budgeting/planning together. Review of minutes dated ; identified a conversation regarding the units of inventory that needs to be sold. Sale and movement of this inventory appears to be connected to

. Product's price point was discussed as well. Minutes discuss the need to be successful with the initial vendor and prove the profitability of the business before adding support resources to .

stated that plans to partner with to facilitate the distribution of this raw material to through . will order the product from in and assemble the product on site ( property) as individual . Business expenses, associated with this activity, are paid for by . We noted that purchased a finished product from in the form of . provided a copy of the invoice from dated for \$ .

, Board Chairman stated that put a rule in place that if you are going to produce and sell a product in you have to be registered as a Non-Government Entity in . can give away the product for free as much as they want but cannot produce it themselves, they have to go through . cost about cents to produce and hopes to sell them for cents. Product is created as one day application. , Board Chairman stated that and hope to generate enough sales to be able to give the product away for free.



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### Cloth Program and

### Fabric Cloth Sales

, Board Chairman stated this was a program in which individuals buy clothes and resell them. helped some of these individuals establish their businesses, however, no longer engages in this activity.

stated in the interview that he and are acquainted with an individual by the name of brought a piece of over from to United States. and liked the , so they bought it from . Check was made to who in turn remitted the funds to . We noted that expense was recorded in general ledger on for \$ and noted account name associated with this expense to be . Check number was but organization did not provide check image nor an invoice receipt for this transaction.

primary checking account ending in shows a withdrawal occurred on for \$ . Additionally, we noted that accepted two donations in the amount of \$ dollars and then recorded these donations in the general ledger as restricted donations for . One donation was from and the other from another individual.

owned a building whose physical location was . provided a copy of the settlement statement for this purchase. Settlement date for the purchase is . purchased the property for \$ from . No physical address has been recorded for the settlement statement but our web research pulls up a church with that name and the address of . Funds for purchase were loaned by of the officers, for \$ and for \$ . A specific repayment schedule was not included. stated that the Board approved the purchase at the time. There was no written agreement. There was a verbal agreement to get the principal repaid to the officers at no interest charged.

stated that bought that property to have their own location from which to operate and to store goods destined for . However, the property ended up not being used because luckily was able to ship the goods/merchandise via the help of another board member. That board member ( ) had access to dock and shipping containers which were used to ship supplies to . had this access via his company, a business called “ .” The organization stopped shipping to in

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due to changes in policies that made shipping items in a container to too cumbersome and expensive for .

gave permission to a to use the property during the duration of the time that the property was owned by . The was allowed to stay there at no cost as long as they paid utility and maintenance expenses. That ( ) later merged with another ( ) and they no longer needed to use the property so the property was sold as it had no use to . The property was sold on . The buyer of the property is an organization named as “ .” Translated in English, it means “ .” , Chairman of the Board, was empowered and authorized to sign the transfer of the property on behalf of the . Web Research and the Secretary of State research shows that is a non-profit organization and is currently operating from this property. It also appears this organization is a . Web research shows this organization’s tax-exempt status is currently revoked as of . The organization initially received their determination letter on as a 501(c)(3) organization.

### Vehicles

, Board Chairman stated that in the early years, purchased vehicles with a 4-wheel drive and the plan was to ship them to to help with transportation of goods. does not have many highways or paved roads and the roads there need a vehicle that can handle the road conditions during rainy seasons. used an independent shipper who managed to ship one vehicle to . The independent shipper however was not comfortable shipping the rest of the vehicles to because they were vehicles. When was unable to ship the rest of the vehicles, they tried selling them. states that the vehicles were parked in storage. Gradually they were sold, stolen, or simply “salvaged” for parts. The \$ of sale of assets was a sale of of the remaining vehicles. The invoices for the sold vehicles were requested for the exam but were never provided.

### Scholarships & Grants

sponsors an individual in called (whose name appears frequently on the list of financial transactions), and at least one more individual . , Treasurer explained that is a student attending of . In the response to the information document request, dated , provided that is a native college student, whose education costs were provided by one of donors. For the calendar year , provided \$ directly to . Allocations were provided periodically and used to fund various school expenses.

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In the initial interview with \_\_\_\_\_, Treasurer, \_\_\_\_\_ stated that \_\_\_\_\_ issues grants and purchases materials by using funds sent to him by \_\_\_\_\_ donors. \_\_\_\_\_ stated that \_\_\_\_\_ does not have any grant-making procedures implemented. \_\_\_\_\_ does not have any written contracts or agreements between themselves, donors and/or recipients with respect to grant-making procedures.

## LAW

IRC § 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.

Tax 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.

Tax 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).

Tax Reg. § 1.501(c)(3)-1(c)(2) of regulations explains the prohibition against private inurement as follows: Distribution of earnings. 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 individuals.

Tax Reg. § 1.501(c)(3)-1(d)(1)(i) of the regulations states that an organization may be exempt as an organization described in 501(c)(3) if it is organized and operated exclusively for one or more of the following purposes: religious, charitable, scientific, testing for public safety, literary, educational, or prevention of cruelty to children or animals.

Tax Reg. § 1.501(c)(3)-1(d)(1)(ii) of the regulations states that an organization is not organized or operated exclusively for exempt purposes unless it serves a public rather than a private interest. The organization must demonstrate that it is not organized or operated to benefit private interests such as "designated individuals, the creator or his family, shareholders of the

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organization, or persons controlled, directly or indirectly, by such private interests." Thus, if an organization is operated to benefit private interests rather than for public purposes or is operated so that there is prohibited inurement of earnings to the benefit of private shareholders or individuals, it may not retain its exempt status.

Rev. Rul. 56-304, 1956-2 C.B. 306 states that an organization which otherwise meets the requirements for exemption from federal income tax is not precluded from making distributions of their funds to individuals, provided such distributions are made on a true charitable basis in furtherance of the purposes for which they are organized. However, organizations of this character which make such distributions should maintain adequate records and case histories to show the name and address of each recipient of aid; the amount distributed to each; the purpose for which the aid was given; the manner in which the recipient was selected and the relationship, if any, between the recipient and (1) members, officers, or trustees of the organization, (2) a grantor or substantial contributor to the organization or a member of the family of either, and (3) a corporation controlled by a grantor or substantial contributor, in order that any or all distributions made to individuals can be substantiated upon request by the Internal Revenue Service.

Revenue Ruling 63-252, 1963-2 C.B. 101, held that contributions to a charity organized in the United States that transfers some or all of its funds to a foreign charitable organization are deductible only if the contribution was to or for the use of the domestic organization, and that the domestic organization was not serving as an agent for, or conduit of, a foreign charitable organization. In order to satisfy the requirements of § 170(c)(2)(A), a qualifying organization may not be a mere conduit to a foreign charitable organization. The revenue ruling states that the requirements of § 170(c)(2)(A) would be nullified if contributions inevitably committed to go to a foreign organization were deductible solely because, in the course of transmittal to the foreign organization, they came to rest momentarily in a qualifying domestic organization.

Rev. Rul. 64-274, 1964-2 C.B. 141, (1964), describes a corporation which is organized and operated on a nonprofit basis. It provides worthy and needy students with free housing facilities and with funds for the purchase of books and instructional supplies or equipment on a gift, or loan basis, without interest. Accordingly, it is held that the corporation is exempt from Federal income tax under section 501(a) of the Code as an organization described in section 501(c)(3) of the Code, since it has been shown that it is organized and operated exclusively for charitable purposes.

Rev. Rul. 66-79, 1966-1 C.B. 48, amplifies Rev. Rul. 63-252 to provide that contributions to a domestic charity described in section 170(c)(2) of the Internal Revenue Code of 1954 which are solicited for a specific project of a foreign charitable organization are deductible under section 170 of the Code where the domestic charity has reviewed and approved the project as being in furtherance of its own exempt purposes and has control and discretion as to the use of the contributions.

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Rev. Rul. 67-367, 1967-2 C.B. 188 provides that a nonprofit organization whose sole activity is the operation of a 'scholarship' plan for making payments to pre-selected, specifically named individuals does not qualify for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

Rev. Rul. 68-489, 1968-2 C.B. 210 describes an organization exempt from federal income tax under section 501(c)(3) of the Code that distributes part of its funds to organizations not themselves exempt under that provision. The exempt organization ensured use of the funds for section 501(c)(3) purposes by limiting distributions to specific projects that are in furtherance of its own exempt purposes. It retains control and discretion as to the use of the funds and maintains records establishing that the funds were used for section 501(c)(3) purposes. Held, the distributions did not jeopardize the organization's exemption under section 501(c)(3) of the Code.

In *Better Business Bureau of Washington, D.C., Inc. v. United States*, 326 U.S. 279 (1945), the Supreme Court held that the presence of private benefit, if substantial in nature, will destroy an organization's tax-exempt status regardless of the organization's other charitable purposes or activities.

In *Church in Boston v. Commissioner*, 71 T.C. 102 (1978), the court found that the organization's officers received amounts of money in the form of "grants." These grants carried with them no legal obligation to repay any interest or principal. Petitioner contended, as it had during the administrative proceeding before the Service, that the grants were made in furtherance of a charitable purpose: to assist the poor who were in need of food, clothing, shelter, and medical attention. However, petitioner was unable to furnish any documented criteria which would demonstrate the selection process of a deserving recipient, the reason for specific amounts given, or the purpose of the grant. The only documentation contained in the administrative record was a list of grants made during one of the three years in question which included the name of the recipient, the amount of the grant, and the "reason" for the grant which was specified as either unemployment, moving expenses, school scholarship, or medical expense. This information was insufficient in determining whether the grants were made in an objective and nondiscriminatory manner and whether the distribution of such grants was made in furtherance of an exempt purpose. The failure to develop criteria for "grant" disbursements or to keep adequate records of each recipient can result in abuse. Accordingly, it was found that the organization failed to establish that their disbursements constituted an activity in furtherance of an exempt purpose under section 501(c)(3) of the Code.

In *Retired Teachers Legal Defense Fund v. Commissioner*, 78 T.C. 280, 286 (1982), the Court stated that the private benefit prohibition of section 501(c)(3) of the Code applies to all kinds of persons and groups, not just those "insiders" subject to the stricter inurement proscription. Prohibited private benefit may include an "advantage; profit; fruit; privilege; gain or interest."

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In *Airlie Foundation v. Commissioner*, 283 F. Supp. 2d 58 (D.D.C., 2003), the court relied on the “commerciality” doctrine in applying the operational test. Because of the commercial manner in which this organization conducted its activities, the court found that it was operated for a non-exempt commercial purpose, rather than for a tax-exempt purpose.

## GOVERNMENT'S POSITION

Impact on IRC § 501(c)(3) tax-exempt status

### Issue 1

Section 1.501(c)(3)-1(a)(1) of the regulations states that if an organization fails to meet either the organizational test or the operational test, it is not exempt. Although your Articles of Incorporation contain adequate provisions to meet the organizational test, you do not meet the operational test as explained below.

Tax Reg. § 1.501(c)(3)-1(c)(1) provides that to be exempt under section 501(c)(3), an organization must be both organized and “operated exclusively” for one or more exempt purposes specified in the section. Tax Reg. § 1.501(c)(3)-1(d)(1)(i) lists these exempt purposes. You have not shown that you are organized and operated exclusively for exempt purposes and not for the private benefit of your creators, designated individuals or organizations controlled by such private interests. The presence of a single nonexempt purpose, if substantial, will preclude exemption regardless of the number or importance of exempt purposes. See *Better Business Bureau* ruling.

You stated that your main activity and focus is providing financial support in . Your support is provided via wire transfers to a separately organized entity in called . Our research did not return any additional information about an organization called “ .” We took into consideration the information that was provided during the exam, but we were unable to confirm that this organization conducts charitable activities.

An organization will be regarded as “operated exclusively” for one or more exempt purposes only if it engages primarily in activities that accomplish one or more purposes specified in section 501(c)(3). You did not provide evidence (written agreements or annual reports) that you review and approve the projects, conducted by ( ), ahead of time as being in furtherance of your own exempt purposes. You did not provide evidence (written agreements or annual reports) that ( ) engage primarily in activities that accomplish one or more purposes specified in section 501(c)(3).



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Your operations, with respect to \_\_\_\_\_ and \_\_\_\_\_ company \_\_\_\_\_, show factors indicative of prohibited inurement and private benefit. Section 1.501(c)(3)-1(d)(1)(ii) of the regulations states that an organization is not organized or operated exclusively for exempt purposes unless it serves a public rather than a private interest. The lending of funds to \_\_\_\_\_ business \_\_\_\_\_ to help start and bolster the business is a commercial, non-exempt purpose and serves private interests. Conduct of business is not a charitable activity. Partnering with for-profit business \_\_\_\_\_ to help package and distribute the \_\_\_\_\_ product is not an inherently exempt activity but is a business that is ordinarily carried on by commercial ventures organized for profit. Using your organization as a conduit to conduct personal transactions with individuals such as \_\_\_\_\_ is a non-exempt activity and it serves private interests.

Lack of any written contracts or agreements between \_\_\_\_\_ and \_\_\_\_\_ is concerning. \_\_\_\_\_ is in a position to personally benefit from your organization's support of his company \_\_\_\_\_. This activity is adversely affecting your organization's IRC § 501(c)(3) tax-exempt status and is grounds for a revocation.

You are unlike an organization that was described in Rev. Rul. 68-489, in that you distribute part of your funds to organizations not themselves exempt under section 501(c)(3). You do not show evidence that you ensure use of the funds for section 501(c)(3) purposes by limiting distributions to specific projects that are in furtherance of your own exempt purposes. Without adequate documentation (written agreements, annual or financial reports), we cannot substantiate that your financial support of \_\_\_\_\_ furthers exempt purposes as specified in section 501(c)(3).

You are similar to the organization described in *Better Business Bureau of Washington, D.C., Inc. v. United States*. Although you may have some charitable and educational purposes, the presence of the non-exempt commercial and private purposes of aligning with a for profit company and focusing your efforts on \_\_\_\_\_ business precludes exemption under IRC Section 501(c)(3). You did not provide any supporting documents or reports that would substantiate that \_\_\_\_\_ activities are in furtherance of such exempt purposes specified in IRC Section 501(c)(3).

You are similar to an organization described in *Airlie Foundation v. Commissioner*, 283 F. Supp. 2d 58 (D.D.C., 2003). We took into consideration your statement that \_\_\_\_\_ and \_\_\_\_\_ hope to provide employment to the \_\_\_\_\_ people and generate enough sales to be able to give the product away for free. The information derived from meeting minutes shows discussions about price points, profitability, and growing the business. Because of the commercial manner in which \_\_\_\_\_ appears to conduct its activities, we found that they are operated for a non-exempt commercial purpose, rather than for a tax-exempt purpose. Without adequate supporting documentation (written agreements, financial reports), we cannot substantiate that your financial support of \_\_\_\_\_ furthers your exempt purposes as specified in section 501(c)(3).

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Unlike the organizations discussed in Rev. Rul. 56-304, which made distributions on a truly charitable basis, you have not established that your distributions will be for charitable or educational purposes. 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.

Therefore, based on our analysis, you do not satisfy the operational requirements of the Code and Regulations to be recognized as exempt under section 501(c)(3) of the Code.

## Issue 2

You are similar to the organization described in Example 1 of Rev. Rul. 63-252. You have little or no control over who receives the cash in the foreign country of \_\_\_\_\_, or how much they receive. Like Example 1 in Rev. Rul. 63-252, you simply send the funds to \_\_\_\_\_ ( \_\_\_\_\_ ), who distributes it as they wish.

You are like the organization in *Church in Boston v. Commissioner*, which described an organization that made distributions and failed to maintain adequate records. The court held that the grants the organization made were not in furtherance of an exempt purpose because the organization was unable to furnish adequate documentation in support of the funds given. You do not have any written procedures for issuing grants to individuals such as \_\_\_\_\_. Therefore, you do not have an independent grant selection committee consisting of members who are not in a position to derive private benefit. You have been unable to furnish any documented criteria which would demonstrate the selection process of a deserving recipient, the reason for specific amounts given, or the purpose of the grant. The potential recipient's classification as a member of such a class is dependent solely on the assertion of the member that a loan is needed. Like the organization discussed in Rev. Rul. 64-274, objective criteria must be used to establish merit or need for the services of a charitable organization.

You do not maintain adequate records required for exemption as found in Rev. Rul. 56-304. This ruling provides records and case histories should be maintained to show the name and address of each recipient of aid; the amount distributed to each; the purpose for which the aid was given; the manner in which the recipient was selected and the relationship, if any, between the recipient and organization insiders.

As required by Revenue Ruling 56-304, you do not keep adequate records to substantiate that the grants and contributions you make further a 501(c)(3) purpose. The evidence shows you have sent funds via wire transfers to \_\_\_\_\_ in foreign country of \_\_\_\_\_. You stated that provided directly to \_\_\_\_\_ allocations periodically to fund various school expenses. However, you do not track the distributed cash to individuals. You have no records to show who actually received the final distributions or what the funds were used for. Therefore, it is clear that you do not keep adequate records as required by Rev. Rul. 56-304. Another example of your

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organization's inadequate record keeping concerns the sales of vehicles. The invoices for the sold vehicles were never provided for exam. Therefore, we cannot substantiate that the sales of these vehicles did not benefit private individuals/entities. Additionally, you do not have written agreements concerning loans from your officers that were used to purchase the building in . Considering the substantial amount of money that was loaned to you, some proper written agreements between your officers and your organization should have been enacted. Another item of concern is the wire transfer statements that list the recipient of funds in as is the President of and the of who is listed as the originator of the wire transfers. These are questionable payments and transactions because there is no substantive supporting evidence provided to establish that all the funds were received by in .

Although Rev. Rul. 56-304 describes requirements for distributions of funds to individuals these requirements are nonetheless applicable to distributions made to organizations to show any distributions are made on a true charitable basis. Aside from bank statements and a general ledger, you have provided very little documentation supporting financial transactions, including loans, donations, or personal expenses. Your Form for provided that total funds expended to operations was \$ . These payments and transactions total % of all disbursements for which no substantiation was provided to establish whether the funds were used for 501(c)(3) purposes.

We have determined that the records and financial materials you have provided show that you do not maintain sufficient records and controls to detail your activities and financial transactions and, therefore, are unable to show that you exclusively further 501(c)(3) exempt activities.

### Issue 3

Per section 1.501(c)(3)-1(c)(2) of the regulations, 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 individuals. Where an activity provides a direct benefit to private insiders, it does not matter that the benefit may be quantitatively insubstantial. Even a small amount of inurement is fatal to exemption.

You are similar to the organization described in Revenue Ruling 63-252, 1963-2 C.B. 101. You stated that is a college student, whose education costs were provided by one of your donors. You stated that you do not have grant making procedures in place. Therefore, you do not have an independent grant selection committee consisting of members who are not in a position to derive private benefit. You stated that makes decisions with respect to grant recipients. Based on available facts and circumstances; your grants to pre-designated individuals such as , and lack of discretion and control over use of funds, in general, will adversely affect your IRC § 501(c)(3) tax-exempt status. Restricting funds to send to designated individuals in the form of grants violates "conduit" and "earmarking" restrictions. If the program awards are not based on need or merit with a pool of candidates, it is

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not sufficient to avoid private benefit. If the payments are made to pre-selected, specifically named individuals, exemption is precluded. See Rev. Rul. 67-367, 1967-2 C.B. 188.

As stated in the cited case Retired Teachers Legal Defense Fund v. Commissioner, the private benefit prohibition of section 501(c)(3) of the Code applies to all kinds of persons and groups, not just those "insiders" subject to the stricter inurement proscription. Prohibited private benefit may include an "advantage; profit; fruit; privilege; gain or interest." In this way, you are providing the substantial private benefit of profit, privilege, and gain to individuals such as \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.

In contradiction to Revenue Ruling 66-79, the funds you raise are not used for the purposes of the domestic organization (you), but rather for the purposes of the foreign organizations (\_\_\_\_\_ & \_\_\_\_\_) receiving the grant from the domestic organization (you). By your own admission, your activities consist of providing financial support to \_\_\_\_\_ and \_\_\_\_\_. You receive donations from your donors and then distribute funds to \_\_\_\_\_ who has ultimate control over how the funds are used. By allowing \_\_\_\_\_ to control your financial decisions, including complete control and discretion over funds and how to spend them (purchase materials and distribute them or issue grants) an environment for allowing your funds to be used for private benefit is created. By not requiring supporting documentation for how the funds were spent, and only accepting reports and pictures submitted by \_\_\_\_\_, demonstrates your existence privately benefits \_\_\_\_\_.

Additionally, \_\_\_\_\_ resides on the \_\_\_\_\_ property compound, in one of the guest houses, that you paid for and maintain. \_\_\_\_\_ office is located on the \_\_\_\_\_ Property from which \_\_\_\_\_ conducts his business. Your minutes discussed the rental potential of the \_\_\_\_\_ property and giving \_\_\_\_\_ a percentage of rentals as a bonus to \_\_\_\_\_ salary. You also stated that you will allow \_\_\_\_\_ to build a house on the property. We took into consideration your statement that \_\_\_\_\_ will pay for the house with \_\_\_\_\_ own funds. However, your organization is serving a private interest by allowing \_\_\_\_\_ to operate \_\_\_\_\_ business and build \_\_\_\_\_ house from the property. The nature of \_\_\_\_\_ control over financial transactions and financial intertwining with you make it impossible to separate.

Through your lack of control and discretion over your funds, you have created an environment for allowing your funds to be used for private benefit to insiders such as \_\_\_\_\_. This precludes exemption under IRC Section 501(c)(3).

### TAXPAYER'S POSITION

The taxpayer's position is unknown at this time.

### CONCLUSION

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You have failed to provide adequate documentation that you exclusively further 501(c)(3) exempt activities. Therefore, we have no reason to believe that you are operating for exempt purposes. As a result of the examination, we have determined that you are not operating for exempt purposes as a §501(c)(3) organization. Accordingly, we are proposing revocation of your tax-exempt status.

Since your organization will no longer have tax-exempt status, you are liable for filing Form , *U.S. Corporation Income Tax Return*. If the proposed revocation becomes final, appropriate state officials will be notified of such action in accordance with §6104(c) of the Internal Revenue Internal Revenue Code.