

## **Alert** | Equine Industry Group/Tax



July 2022

### **IRS Denies Tax Exempt Status to Organization that Holds Equine and Horsemanship Events**

On July 1, 2022, the IRS released a private letter ruling (PLR) concluding that an organization that conducts equine and horsemanship events does not qualify for an exemption under Internal Revenue Code (IRC) Section 501(c)(3). The IRS's determination highlights how an equine organization's social and recreational activities may jeopardize its exemption from federal income tax.

#### **501(c)(3) Organizational and Operational Tests**

For an organization to be recognized as tax-exempt under IRC Section 501(c)(3), the organization must be **both** organized and operated exclusively for one or more exempt purposes (e.g., charitable, religious, educational, or scientific purposes). No part of the organization's net earnings may inure to the benefit of any private shareholder or individual. An organization will not be regarded as "operating exclusively" for one or more exempt purposes if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

#### **Private Letter Ruling 202226018**

The organization at issue in the PLR conducts equine activities, including equine speed events and horsemanship events, and plans to conduct sanctioned barrel races in the future. To promote its events, the organization provides equine activities and opportunities such as trail rides and learning about horse

sportsmanship. The organization also promotes its club through community events such as parades and individual community involvement.<sup>1</sup>

The IRS reviewed the organization's application for recognition of tax exemption and determined that a significant portion of the organization's activities are operated for social and recreational purposes. Social and recreational purposes are not exempt purposes under IRC Section 501(c)(3) and an exemption under IRC Section 501(c)(3) cannot be granted when an organization has a non-exempt purpose that is more than insubstantial in nature. In addition, although equine and horsemanship events may have some educational value, the organization did not provide evidence that its activities further any educational or other exempt purpose. Therefore, the IRS found that the organization did not meet the operational test under IRC Section 501(c)(3).

## Conclusion

An equine organization seeking an exemption under IRC Section 501(c)(3) should clearly demonstrate how its activities further an exempt purpose. Also, an organization that has any non-exempt purposes should be careful to ensure that those non-exempt purposes are insubstantial and do not outweigh the exempt purposes that the organization offers. Equine organizations seeking to establish a tax-exempt organization would be well advised to consult with tax professionals experienced in establishing tax-exempt organizations.

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<sup>1</sup> When PLRs are released to the general public, they are highly redacted and do not disclose the name of the taxpayer and other identifying information. Included among the items addressed by PLR 202226018, but not disclosed to the general public, are: the state in which the organization was formed, the number of events offered by the organization, the dates and location of the events, the ages of the individuals that participate in the events, and the regions that the organization serves.

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