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IRS Declines to Limit Retroactive Effect of Organization's Revocation.

In technical advice, the IRS declined to limit the retroactive effect of its revocation of a credit counseling organization’s tax-exempt status.

The IRS initially denied the organization’s exemption application partly because of the organization’s close connection to a for-profit company owned by the president of the organization. After the organization said it would educate the public on money management and provide credit counseling, the IRS granted exemption. But a subsequent IRS examination showed the organization, six years after obtaining exemption, had contracted with the same for-profit entity and was operating as a trade or business. The IRS also discovered that the organization was primarily engaged in enrolling people in debt management plans instead of providing counseling. Further, the organization had not told the IRS about its change in operations.

The IRS concluded that the revocation may be retroactive to the year under examination, when the IRS determined the organization had made material changes in its operations.

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