

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Employer Identification Number: [REDACTED]
Key District: [REDACTED]
Form: [REDACTED]

Dear Applicant:

This letter constitutes a final adverse ruling with respect to your claim of exemption from federal income taxation under section 501(c)(4) of the Internal Revenue Code.

Based on an analysis of the additional information you submitted during and after the conference of [REDACTED] we withdraw our conclusion, stated on page [REDACTED] of our [REDACTED] letter, that you are a political organization taxable under section 527(a)(1) of the Code.

We conclude that your activities did not promote social welfare and did not serve the community as a whole. Your principal activities served the private benefit of [REDACTED] campaign for public office and the private interests of the [REDACTED]

In the additional information you submitted during the protest process, you stated that [REDACTED] was your primary asset of value. It was compiled as a result of your operations from your inception through [REDACTED]. In [REDACTED] you agreed to seek a loan from [REDACTED] to fund your operations. On [REDACTED] you entered into a verbal service agreement with [REDACTED] a sole proprietorship of [REDACTED]. Under the service agreement the use of all of your assets, including personnel, facilities, and [REDACTED], were put at the disposal of [REDACTED] to use for his [REDACTED]. It does not appear that [REDACTED] engaged in any further activities.

On [REDACTED] you executed a [REDACTED] in the amount of [REDACTED] to [REDACTED] for amounts he had

[REDACTED]

advanced to you previously. Also, on [REDACTED], in return for forgiveness of the debt, you assigned all of your remaining assets, including the data base containing all the names, [REDACTED] and other information concerning the members of [REDACTED], to [REDACTED].

Under the circumstances, we cannot conclude that these were the equivalent of arms-length transactions (designed to distinguish between your interests and [REDACTED]) and that [REDACTED] efforts in compiling the list did anything other than further [REDACTED] private purposes in [REDACTED]. Under the circumstances, we have concluded that you are not exempt under section 501(c)(4) of the Code.

Accordingly, you are required to file federal income tax returns. Based upon the financial information that you furnished, you should file returns on Form [REDACTED] for prior tax years within 30 days from the date of this letter with your key District Director for exempt organization matters, shown above, unless you request and your key District Director grants an extension of time to file the returns. You should file returns for later tax years with the appropriate service center indicated in the instructions for those returns.

If you have any questions concerning the reasons for this ruling, please contact the person whose name and telephone number appear in the heading of this letter. You should address questions concerning the filing of returns to your key District Director.

Sincerely,

[REDACTED]
[REDACTED]
Director, Exempt Organizations
Division

cc: [REDACTED]

cc: [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Key District: EIN: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(4) of the Internal Revenue Code. We have determined that you do not qualify for exemption under that section of the Code. We have, however, determined that you are a political organization described in section 527 of the Code. Our reasons for these conclusions and the facts upon which they are based are explained below.

FACTS

The information provided indicates that you were incorporated on [REDACTED] in the [REDACTED]. Your Articles of Incorporation state that you are organized to involve citizens in government and in public policy decision making; to conduct research and disseminate information on public policy issues; to serve as an advocate before the public, government officials, and government bodies on public policy issues; and to conduct related activities.

You indicate that your emphasis is on policy issues related to government ethics and election law reform; federal government spending and borrowing patterns; taxation and revenue production policies; and other matters related to economic policy, private sector development, and health care reform. Your objective, as explained in your application, is to create a supportive public environment for government and legislative reform through

increased public knowledge of complex economic and government issues, so that proposals designed to address those issues obtain widespread support.

Although you stated that you are not an outgrowth of any other organization, the impetus for your creation was the independent presidential campaign of [REDACTED]. The titles, "[REDACTED]" and "[REDACTED]" were used initially to describe a movement begun by supporters of a [REDACTED] presidential campaign following [REDACTED] announcement on [REDACTED], that he would not become a candidate for president. The movement functioned for legal purposes as a continuation of the [REDACTED]. After [REDACTED] entered the presidential race in [REDACTED], the Committee changed its name to "[REDACTED]". All expenditures and receipts related to [REDACTED] (including expenditures and receipts under the names [REDACTED], [REDACTED] and [REDACTED]) were included in reports filed with the Federal Election Commission. The rights of [REDACTED] in the name and service mark "[REDACTED]" were legally assigned to you by agreement dated [REDACTED].

The themes developed during [REDACTED] presidential campaign are the primary focus of your informational and educational programs. You state that your mission is to educate your members and the general public in order to create better and more responsive government. These themes, focusing on deficit reduction, foreign trade, regulation of lobbyists, and government reform, are the subjects of [REDACTED] published in [REDACTED]. Subsequent [REDACTED] by [REDACTED] which you have published, outlining the political reform necessary to achieve his goals, include [REDACTED].

[REDACTED] is registered with the FEC as the principal campaign committee for [REDACTED] presidential campaign. You have an ongoing relationship with [REDACTED] in that you have a contract to provide certain accounting and administrative services to [REDACTED] in connection with the winding up and termination of that organization. Pursuant to an Administrative Services Agreement dated [REDACTED], [REDACTED] will pay for these services at a rate calculated to reflect your actual cost of providing the services. In addition, you will also be providing [REDACTED] with office space and equipment. Facilities and equipment charges are to be calculated using a reasonable allocation. Since you will be sharing certain personnel, these costs will also be based on a percentage of time expended on behalf of [REDACTED].

You state that the contract with [REDACTED] was arranged to allow you to secure the services of the employees of [REDACTED] initially on a part-time basis and then on a full time basis.

-3-

You state that "These employees might have otherwise been forced to seek other employment due to the part-time requirements of winding up [redacted] and would have been unavailable to [redacted]" In fact, you indicate that [redacted] of the [redacted] employees you initially hired previously worked for [redacted]. You indicated that these employees were hired because your organizers already knew them and were confident of their abilities to be productive employees, as well as their willingness to be employed at salaries associated with an ideologically-based organization.

[redacted] is your founder and serves as [redacted]. [redacted] is a nationally recognized, successful businessman and has ownership interests in numerous corporate entities. [redacted] has provided his services to you without charge. You note in your [redacted] letter, that each of the infomercials you have sponsored was paid for in its entirety by [redacted] as were his travel and personal expenses. [redacted] also paid for the cost of data processing consulting services provided to you by [redacted] during [redacted].

Also serving on your initial Board of Directors are [redacted], your Secretary/Treasurer, and [redacted], your Assistant Secretary. These individuals, along with most of your initial employees, have a long standing relationship with [redacted], in particular, were key figures in [redacted] campaign for the presidency and were employed by [redacted]. Other key employees associated with [redacted] and/or [redacted] include your Executive Director, [redacted], your Media Director, [redacted], your Operations Director, [redacted], and your Field Director, [redacted]. In your [redacted] letter, you state that [redacted] and [redacted], continued to be employed by, but on an extended leave of absence from [redacted], d/b/a [redacted], a sole proprietorship owned by [redacted]. You indicate that these individuals were compensated pursuant to their employment agreement with [redacted] and worked for you on a voluntary basis.

In your response to our [redacted] request for additional information, you indicated that the original three members of your Board of Directors continued to serve in that capacity. You also stated that you anticipated replacing the initial Board by the end of the year and expanding the Board to include a number of State Chapter chairpersons and individuals of national prominence in business, education, and government.

In your [redacted] letter, you indicated that your Board of Directors amended and restated your by-laws to provide for an

-4-

[REDACTED] Board. The by-laws provide that [REDACTED] shall be a director by virtue of his position as your founder; five directors will be elected by a [REDACTED] (comprised of the State Chapter Chairperson or other designated representative from each state chapter) from among its members; and five directors will be elected by your current Board of Directors other than those elected by the National Advisory Council. Thus, six of your eleven Directors will be appointed directly by [REDACTED] and those having a long standing relationship with him.

Your by-laws indicate that you are a membership organization. You have adopted a non-restrictive membership policy to encourage as many people as possible to join. Membership dues are set at [REDACTED] per year. Membership benefits are stated as follows:

members will be provided the organization and mechanism whereby their opinions will be communicated to the congressional and executive branches of the federal government. Members will receive regular newsletters detailing important national and state issues, advising them of the availability of additional educational material and opportunities and providing scheduling information on [REDACTED] and other events of importance to [REDACTED] educational purposes. Members will have the opportunity to participate in meetings of members at the local level and to elect leadership by states to serve on the board of directors or State Chairperson Advisory Board of [REDACTED]. Finally, members receive membership cards identifying them as active members of [REDACTED].

Membership benefits do not include voting rights.

Members are solicited through various channels including your publications, a toll free telephone number set up for responses to your televised infomercials, and brochures circulated at your various candidate forums. Extra applications are sent with all responses to give to friends and callers to your information center may request additional applications. Interim volunteer state coordinators or paid state directors in your employ can order more applications directly from you as needed. These applications are circulated by canvassing public areas. In addition, applications are printed in newsletters and are available at all sponsored events. Your membership drive for [REDACTED] and [REDACTED] was expected to generate approximately [REDACTED].

-5-

[REDACTED]

Your initial mail solicitation went out on [REDACTED]. The mailing list was compiled by cross checking all ballots you received from the television broadcast "[REDACTED]". Prospective members were sent a letter from [REDACTED], a tabulation of ballot responses, the results of a poll conducted by the [REDACTED] following the broadcast, an individually tailored membership application, and a postcard announcing the third televised informational program to be aired by you on [REDACTED]. A different sample of [REDACTED] people who signed the [REDACTED] petition drive for [REDACTED] presidential candidacy were mailed an application in late [REDACTED]. You have indicated that these sample solicitations were your only direct mail solicitations.

Your initial method of member solicitation was television advertising. Your initial ad campaign ran on national cable TV in selected spot markets. [REDACTED] ads were aired. The format for these ads was [REDACTED] sitting behind a desk discussing a number of topical national issues. Each ad ended with an invitation to join by calling an 800 number or sending a check to a Post Office Box. Your national cable campaign ended on [REDACTED]. You also purchased [REDACTED] commercials on [REDACTED] to promote each of [REDACTED] minute infomercials.

You have furnished transcripts of several of the television ads. [REDACTED] aims his remarks primarily toward his former supporters:

"the millions of volunteers of [REDACTED] altered the course of our nation's history in the past election. We spelled out the changes that are so urgently needed in our election process."

"I would like to congratulate the millions of volunteers and supporters of [REDACTED]. You made history in the past election. You changed politics."

"just compare our platform during the campaign to the agenda ..."

In letters acknowledging membership, [REDACTED] writes, [REDACTED]

You indicate that although your members have no direct role in your organization, they will have input through state chapters. Your by-laws authorize you to create and charter affiliated state chapters in each state. You, the national

-6-

organization, will set the policies to be pursued by all affiliated organizations. Your Board of Directors sets the criteria for the state organizations. Your by-laws indicate that you are not responsible for any state or local organization's actions, liabilities, or obligations unless you assume such responsibility in writing. To qualify for affiliation, a state chapter must agree to adhere to all of your policy positions. An affiliation may be revoked at any time.

A state chapter must be structured to include a State Steering Committee, State Chairperson, and State Treasurer. The Steering Committee is to be composed of congressional district coordinators which are elected annually by you, the national organization. These members will elect a Chairperson who will then be eligible to be a member of your State Chairperson Advisory Board. You indicated that the Advisory Board would be created when there were sufficient state organizations to be represented. In your [redacted] letter, you stated that an advisory board, known as the National Advisory Council, has been appointed. The Council is composed of all elected State Chairpersons, and will advise you of their opinions.

To assist in creating the national/independent state framework, you have hired employees in approximately [redacted] states to assist with the organizational process. The state directors are hired as your employees, and are in charge of setting up the state chapters. They will assist in membership drives, evaluate requests for grants or assistance, and monitor the activities of the state chapters to assure continued compliance with the requirements for affiliation.

You indicate that the national/independent state framework was created as a safeguard. By insisting that the state organizations remain separate and distinct, you are better able to avoid establishing an agency relationship that would require you to closely monitor and control the state entities.

The state chapters are set up along congressional district lines. The boards of directors of the state organizations will be elected by members in each congressional district with one director/committee member being the elected Congressional District Coordinator. Congressional District Coordinators will serve as the elected representative from their congressional districts on the board (the steering committee) of the state chapter.

You believe that the State Steering Committees will best represent the interests of all members from within each state if steering committee members are elected by regions. Congressional

-7-

Districts were chosen primarily because they are of relatively equal population and they provide a convenient means for dividing a state into regions for this purpose. You also indicate that this structure may facilitate members' communication with their elected representatives at the federal level in a meaningful way since members from a particular district and their district coordinator will communicate with the same U.S. Representative. We also note that this structure was used by [redacted] supporters and [redacted] during the [redacted] presidential campaign and was already in place.

You indicated that you will provide funds to the state chapters to help sponsor activities which are consistent with your purposes. Your funds have been provided to assist with the costs of communications, printing, facilities and equipment rental, publicity and other expenses related to your membership drives and initial organization. Your funds have been made available to state chapters for the dissemination of information concerning the election of state officials. You have also expended funds through your State Directors within individual states to help sponsor debates, forums, petition drives, and other activities intended to educate and inform your members, the public, and elected officials about important policy issues.

You are organized on a national basis so all information funnels through your offices. This allows you to create a national data base of members. Affiliated state organizations are provided their own membership data base but may only use it for purposes approved by you in advance. By [redacted] there were authorized affiliated groups in [redacted] states. Your success in building a national base was the subject of an article in your newsletter [redacted] that states -

In the [redacted] since [redacted] announced the formation of his grass-roots organization, he has amassed a donor base and membership [redacted] a mass membership organization (that is a) potentially powerful lever for such change. [redacted]

The information submitted indicates that you were associated with a series of televised referenda. All [redacted] were televised on [redacted] in which [redacted] discussed various issues. The first program, [redacted]

[redacted] aired on [redacted]. The topics covered in this infomercial included the national debt, the annual deficit, Congressional term limits, lobbying activities, foreign trade, health care reform, and other

-8-

current items of national interest. The discussion of these topics followed [redacted] well known positions as presented in his book, [redacted]

Following this broadcast, all members of your organization were mailed a petition to elicit their opinions on the issues presented in the infomercial. All State Directors and Interim State Coordinators were mailed copies of the petition and asked to distribute it on the state and local level. All responses were requested to be returned to your National Headquarters in [redacted] for processing.

You have indicated that the questions on the petition were designed by [redacted] based upon his belief that the issues involved were important to a vast number of citizens who had not previously made their voices heard. In response to complaints about bias in the poll questions, you hired the [redacted] to design and conduct an independent, statistically valid, national survey to verify the responses to the initial petition. The [redacted] had recent experience conducting national surveys on political issues, and was the low bidder in your request for bids from interested organizations. This company was directed to prepare its own list of questions and remove any alleged bias, and to poll a statistically valid sample of citizens to compare their responses with those to the [redacted]

A news release issued by the [redacted] indicated that the results of the new poll confirmed the petition responses. Copies of the news release were mailed to your members and viewers responding to the initial poll following the broadcast, and widely publicized by you. The petitions and ballots you received from these polls were [redacted]

[redacted] the interest of your members and the public in a balanced budget.

The second broadcast, [redacted] aired on [redacted] in this program, [redacted] analyzed President Clinton's campaign finance reform package. Many of the challenges discussed in this infomercial are featured in [redacted] book, [redacted]. In fact, this book was mentioned at the close of the broadcast. A press release issued on [redacted] shortly after this broadcast, summarizes [redacted] points and closes with the following message: [redacted]

"

-9-

The final program in this series aired on [REDACTED], and concerned [REDACTED]. In this broadcast, [REDACTED] discussed the impact of [REDACTED].

You budgeted [REDACTED] million in [REDACTED] and [REDACTED] million in [REDACTED] for infomercials. You indicated that these broadcasts were intended as a cost effective method to communicate with members and non-members the results of your research and analysis. The programs were intended to educate the American people on a non-partisan basis about issues of national importance and interest. You stated that, although the [REDACTED] involved the presentation of research materials and information by [REDACTED], others may not follow the same format. To date, there have been no others.

You have indicated that the entire cost of producing and airing each informational broadcast to date has been borne personally by [REDACTED] and is not included in your [REDACTED] budget. In addition, each broadcast was initiated, formatted, and presented by [REDACTED] and is based on material previously published by [REDACTED]. Your role in these broadcasts was limited to advertising and promotion. You also conducted the survey following the initial broadcast and compiled the results, although it is not clear what role you played in designing the survey itself.

Since your inception, you have conducted several other activities. The most prominent of these has been sponsoring candidate forums and debates for your members and the general public centering on the issues you have previously identified as important to the nation through your infomercials. As part of several forums, you have polled your members and compiled evaluations of the candidates based on their responses to your questionnaires. These evaluations are publicized through various media. You budgeted [REDACTED] million in [REDACTED] and [REDACTED] million in [REDACTED] for such special projects.

Information submitted in your letter of [REDACTED] affirms that a major focus of your organization is to provide information to voters and to encourage eligible persons to participate in the electoral process. You, your members, and affiliated state organizations, have pursued this mission by sponsoring candidate forums during elections at all levels of government. You state that these forums provide candidates access to publicity and thereby lessen their need to raise money independently and their reliance on special interest groups for

-10-

[REDACTED]

funding and support. You also indicate that the forums have the additional benefit of raising public awareness and knowledge, which in turn results in a more informed electorate and better voter decisions.

In addition to the purposes stated in the [REDACTED] letter, there is substantial evidence that these forums played a role in advancing your electoral interests. They served as a method to permit your members to select candidates sympathetic to your views. In fact, the [REDACTED] program, the one that you have indicated is your model for other programs, was designed to serve your electoral interests by identifying the best candidate, the one most compatible with your principles.

In [REDACTED], your State organization sponsored many candidate forums in connection with the [REDACTED]

[REDACTED] In your letter of [REDACTED] you indicated that because your national organization is headquartered in [REDACTED] the [REDACTED] served as a pilot project for your organization to test various methods for involving all candidates and providing them with a forum to appear before the voters (both locally and through statewide radio and television coverage) at no cost to them. You also stated that the national organization took the lead in this effort to test the proper level of your involvement in local elections.

On [REDACTED], you met with [REDACTED] potential candidates for [REDACTED] or their representatives. Everyone who had been reported in the news as a potential candidate was invited to participate. You indicate in your [REDACTED] letter that your purpose in holding this meeting was to begin the planning process for you to be able to inform your members and the public about the candidates and their positions on the issues your organization has targeted as of primary importance.

After the [REDACTED] meeting, you sponsored the following activities:

1. Meet the U.S. Senate Candidates Night [REDACTED]; All known candidates were invited to speak at [REDACTED] and asked to focus on the economy and government reform issues. [REDACTED] participated. You paid for statewide satellite distribution of the live radio coverage and encouraged your members, the public, and the media to attend.

-11-

2. Radio Interviews: You invited each of the registered candidates to tape [redacted] with a prominent broadcaster. The interviewer was advised that your focus is on government and economic reform. The interviewer was free to formulate each question and follow-up question. [redacted] interviews, selected by a draw, were packaged into a single program and [redacted] programs were aired [redacted] same time slot beginning on [redacted], and ending on [redacted].

3. The [redacted] You invited the leading candidates [redacted] on [redacted] designed to highlight the positions of the candidates in whom the public appeared most interested.

4. [redacted] On [redacted] you invited [redacted] for the [redacted] moderated by [redacted] to participate in [redacted] Each candidate made a one-minute opening statement, and [redacted] then posed questions of concern to your organization for the candidates to discuss in a back and forth exchange. Each candidate was also permitted a ninety-second closing statement. In your Press Release of [redacted] you stated: "By the time the [redacted] ended, [redacted]"

[redacted] In fact, [redacted] in the [redacted] special election, were members of [redacted]

5. Following the [redacted] you conducted a member poll by mailing post cards to [redacted] which asked "Which candidate do you believe would be the best U.S. Senator - [redacted] or [redacted]" You also asked your members whether [redacted] should endorse a candidate. The results of your poll were announced at a [redacted] news conference. While the statement was given by [redacted], a news release was issued by your organization and dated [redacted]. The statement is as follows:

Since we mailed our postcard survey, [redacted] members have responded. [redacted] who responded to the survey indicated they believe [redacted] would be the best [redacted].

[REDACTED]

As the state director for [REDACTED], it is my pleasure to inform [REDACTED] of the overwhelming support from the [REDACTED].

The [REDACTED] is titled [REDACTED]. The first paragraph reads as follows:

[REDACTED] the national non-profit and non-partisan organization founded by [REDACTED] today announced its support of [REDACTED].

In response to our questions regarding your endorsement of candidate [REDACTED] you indicated in your letter of [REDACTED] that [REDACTED]. You state that you simply reported the results of a survey of your members. You state further:

[REDACTED] announcement regarding the results of its postcard opinion poll indicated that its members expressed their individual support of [REDACTED]. The announcement did not indicate the organization's support for or endorsement of either candidate, and was intended only to inform the public and [REDACTED] members of the results of the poll. [REDACTED] believes that its endorsement of a candidate would indicate acceptance of that candidate for his or her beliefs, promises or past actions, and that acceptance would come from the organizational level. [REDACTED] did not endorse or support either candidate in [REDACTED], but merely polled its individual members and announced the results of that poll.

In response to several other questions asked in our letter to you dated [REDACTED] you have offered an expanded explanation of [REDACTED] (a member of the Board of Directors) during [REDACTED] statement that your mission is to [REDACTED].

The purpose of the organization is to have a broad-based membership that represents certain fundamental views which we feel are shared by a great majority in the center. We offer votes that are available so that members of Congress can adopt our agenda.

-13-

You indicate that [REDACTED] statement is consistent with your mission to inform your members and the public about issues. You state:

A significant part of [REDACTED] tax exempt mission is to inform its members and the public about public policy considerations and the actions taken by elected officials on those issues. That mission is furthered by keeping candidates for elective office focused on issues and not on personalities or negative campaigning. [REDACTED] members have demonstrated their interest in issues, and that they are active in the exercise of their right to vote. [REDACTED] believes that candidates will recognize the importance of [REDACTED] and that they will be responsive to the views of the organization and its members on public policy and governmental issues in order to [REDACTED] for their candidacies.

[REDACTED] has also been quoted as stating "the impact we have is to get people running for office to adopt our agenda in order to get elected." In response to our concern regarding your role in political campaigns, you state:

[REDACTED] principal mission is to educate and inform the citizens of this country about issues of government and public policy, and to encourage them to become regular, active voters. [REDACTED] hopes to positively influence the outcome of elections by providing exposure to all viable candidates without regard to whether they have campaign resources.... [REDACTED] will also work to educate and inform its members and the public on the issues, and on the voting records and positions of both incumbent officials and their challengers. By providing information to its members and the general public about public policy considerations and the individual performance of elected officials, [REDACTED] believes it will cause voters to force candidates to remain focused on the issues and to carry out their campaign promises once elected. ... [REDACTED] accomplishes this task by establishing clear standards and positions on major issues, presenting those issues to its members and the general public, and offering candidates an opportunity to state their views with respect to those issues. The voting public is then free to evaluate a candidate's position against their own standards and those of [REDACTED] and to make a more informed decision in the voting booth.

-14-

[REDACTED]

The additional information you submitted on [REDACTED] indicates that [REDACTED] on [REDACTED] was attended [REDACTED] the fifty [REDACTED], your national staff, and the members of your Board of Directors. You indicate that [REDACTED] represented the culmination of your year-long process of establishing membership governance of your organization.

[REDACTED] generated [REDACTED] which are expected to define your [REDACTED] activities. The [REDACTED] the [REDACTED] and the [REDACTED] were developed by the participants and are intended to guide and direct your organization and its affiliates through the remainder of [REDACTED]

The [REDACTED] is based on your list of [REDACTED]. These are as follows:

1. Actively participate in voter registration and the election process.
2. Perform a positive and effective role in economic and government reform issues.
3. Continue to build membership.
4. Further organize at the National, State and Congressional District levels, and local and college campus levels.
5. Develop effective and timely communications.

[REDACTED] provides suggestions for achieving each of your stated goals. For each goal, there is a section detailing [REDACTED]. These are actions that will be pursued by your headquarters staff. For example, [REDACTED]

1. Providing candidate voting records.
2. Producing and distributing to state organizations a standardized Issue/Candidate Questionnaire.
3. Producing and distributing to state organizations a standardized candidate Scorecard.

-15-

Also provided for [REDACTED] that may be implemented by you or your affiliate organizations to achieve a particular goal. The ideas [REDACTED] (to actively participate in voter registration and the election process) include under the heading, [REDACTED] the following items:

1. Identify candidates.
2. Research issues and voting records related to [REDACTED] objectives and issues.
3. Analyze financial sources of candidate's campaign funding: PAC or other.
4. Do the candidates solicit information from constituents?
5. Does constituent consensus affect the candidate's decisions?
6. Develop candidate questionnaires on [REDACTED] issues generated from membership.
7. Develop a candidate report card.
8. Distribute results of candidate questionnaires and report cards.
9. Distribute videos on candidate responses to issues.
10. Distribute candidate evaluations via state newsletters.
11. Provide voter education to the lowest level.
12. Utilize information from [REDACTED]
13. Prepare Op/Ed articles.
14. Gather and make available newspaper clippings regarding candidates.
15. Network with other organizations.
16. Conduct candidate forums.
17. Prioritize the races in which [REDACTED] will be most active

-16-

You have also submitted the [REDACTED]
This document states in part:

[REDACTED] has the opportunity to bring to the political process the missing elements of holding our elected servants responsible for their actions and accountable to the voters."

[REDACTED] is not a political party and will not field candidates for elective office. Each member of [REDACTED] should be encouraged to be active and involved with the candidate of his or her choice in the upcoming elections. ... As an organization [REDACTED] will not be promoting any individual candidate."

"By judging the actions of incumbents seeking re-election on the issues of government reform and economic reform, [REDACTED] members can be the swing vote that means the difference between winning and losing in each and every election. Viewed another way, [REDACTED] members have the ability to impose term limits on incumbents who have not acted in the best interest of the people they represent."

As part of [REDACTED] adopted at the [REDACTED] you have adopted guidelines for voter registration drives and candidate forums. As an alternative to candidate forums, you suggest sending questionnaires with a cutoff date for candidate responses to allow ample time to disseminate the responses. [REDACTED] you state: "You can formulate the questions from a yes or no answer, or you may choose to encourage narrative responses." [REDACTED] you state:

after presenting candidate forums, or questionnaire responses, you may choose to poll the [REDACTED] membership of the electoral district as to which candidate would make the best public servant for that position and announce the results of the membership poll prior to the election (emphasis added)

The [REDACTED] was also adopted at your [REDACTED] This is primarily a guide to your state organizations for identifying issues of national and state importance. [REDACTED] with sub-categories that track your national agenda.

As part of your activities, you also publish [redacted] newsletter. [redacted] includes an introduction from [redacted] and a mission statement. Also included are an article about government reform based on [redacted] speeches, an informational update on all state activities, an update on media events and the membership drive, and an announcement of the telecast of [redacted]. Copies of your newsletter are furnished to the media and other interested persons upon request.

[redacted] features on the front page: [redacted] This issue is devoted to [redacted]. The article on the economic plan lists the votes of each member of the House of Representatives for and against the Plan.

Your organization has taken the position, through [redacted] speaking engagements, books and your newsletters, that [redacted] and that [redacted] would be a negative factor. In fact, the feature article [redacted] states:

[In] less than 5 months [redacted] hit the pavement running: In addition to his new best selling book, [redacted] and [redacted]. Since [redacted] has toured [redacted] states with visits to [redacted] cities. ...has spent significant time with various groups of volunteers and the general public on how they prioritize today's issues ... appeared on [redacted]

It is unclear whether you have sponsored these activities or whether these personal appearances were paid for and carried out independently by [redacted]

The [redacted] is devoted to [redacted] by [redacted]. In addition to your discussion of the Clinton economic program, you analyzed the votes of all Senators and Representatives on the issues you have identified as your National Issues. These are (1) [redacted], (2) [redacted], and (3) [redacted].

-18-

[REDACTED] of [REDACTED] contains an overview of your accomplishments to date. It also contains the [REDACTED] in which you indicate how each Senator and Congressperson voted on [REDACTED] National Issues. In a [REDACTED] section, you point out [REDACTED]

A small portion of your newsletters may be devoted to grassroots campaigns, although the absence of information on the timing of the calls to action make that hard to conclude. The third edition of your newsletter, for example, contained [REDACTED]. This newsletter also contains phone numbers of all of the members of Congress. The call to action urges your members to use these numbers.

In the same article that contained [REDACTED], your electoral position is clearly stated in the preceding paragraph:

[REDACTED] can be terminated by giving six months notice. Even if [REDACTED], the people [REDACTED] in [REDACTED] and [REDACTED] in [REDACTED]

The same issue also contains a legislative scorecard on issues in which you have an interest. This fact pattern is present with respect to other issues addressed in the newsletters. No case has been made in any of your submissions as to specific pieces of legislation pending, nor your expenses as they relate to both grassroots or direct lobbying.

In addition to your general membership programs, you operate a special program aimed at recruiting members on college campuses. The college program is designed to encourage college campuses to organize local chapters. These college or university groups will work hand in hand with the local congressional district organizations to help mobilize support for [REDACTED]

The college program is led directly by employees on your staff. These employees have been intimately involved with the [REDACTED] and [REDACTED] chapters, in their respective states. To gain support and encourage fresh and creative ideas, you sponsored the [REDACTED] " [REDACTED] was a contest for [REDACTED] in which any [REDACTED] college chapter could compete. The challenge was to write a proposal regarding [REDACTED]

-19-

A major activity you conducted through the college program was the [REDACTED]. In your literature, you explain:

The [REDACTED] elections are just around the corner. In keeping with the college chapter objective of giving students an active voice in the national political arena, [REDACTED] will be sponsoring voter registration drives on college campuses this spring. The goal is to register as many new college age voters as possible for the [REDACTED] primaries and general elections. A large college student voter turnout combined with timely information about critical issues can only aid in the move toward real reform.

In addition to the activities already described, you have indicated that you plan to conduct research and to operate in a manner similar to a clearing house. You plan to compile research materials from many sources and eventually computerize it for accessibility nationwide. This research activity is intended to generate educational information and policy analyses, and, potentially, information on voting records, sponsorship, campaign receipts, and other activities of office holders and candidates.

The [REDACTED] entitled [REDACTED] was held on [REDACTED]. [REDACTED] was hosted by [REDACTED], your founder, who delivered the opening and closing remarks. Your submissions indicate that the purpose of the conference was to provide citizens a firsthand opportunity to learn in-depth options for solving the country's most difficult problems and to give feedback directly to the country's leading policy makers. Invited speakers included all of the [REDACTED].

Billed as the political event of the year, the conference brought [REDACTED] of the country's most prominent political figures to [REDACTED] to discuss issues previously identified by [REDACTED] through his books and speeches and adopted as your National Issues. These include social security & medicare, health care reform, medicaid & welfare, federal tax reform, balancing the budget, and immigration reform. [REDACTED] analysis of medicare and medicaid [REDACTED].

One of the workshops at [REDACTED] was entitled [REDACTED]. Your [REDACTED].

-20-

[REDACTED]

[REDACTED] contained an article by [REDACTED] reviewing the [REDACTED] as it had been discussed throughout the year at the national, state and local levels of [REDACTED]. The article indicates that some of your members believe the only effective way of bringing about desired change is to focus energy and resources on creating the infrastructure of a [REDACTED]. [REDACTED] would be followed by a search for candidates, raising the money to enable their candidates to be competitive, and ultimately electing a sufficient number of representatives [REDACTED] to the Congress to be able to influence the outcome of economic and government reform measures.

Notwithstanding discussions regarding [REDACTED], your membership polls indicated that your membership preferred to remain focused on issues and not on promoting individuals. During [REDACTED] closing comments at [REDACTED], he asked the participants to give elected servants the opportunity to accomplish the reforms but to keep all options open. [REDACTED].

The [REDACTED] of [REDACTED] includes on [REDACTED] a section entitled [REDACTED]. Here, [REDACTED] of the [REDACTED] claims that they prefer for one of the 2 major parties to adopt its goals. They are focused just on getting the reforms they want rather than on forming a party. [REDACTED] was also the subject of forum held on [REDACTED].

On [REDACTED] we sent you copies of two newspaper articles from the [REDACTED]. An article headlined [REDACTED] appeared on [REDACTED]. This story covered [REDACTED] announcement of [REDACTED] of his intent [REDACTED] to be called the [REDACTED] to run a candidate against [REDACTED] in [REDACTED] nominee in [REDACTED] stated that he planned to start by [REDACTED] and would then seek to get it on the ballot [REDACTED]. [REDACTED], the Executive Director of the [REDACTED] branch of [REDACTED] said: "This is a great political awakening.... [REDACTED] is the major political thrust in America, it is the driving force..." [REDACTED] indicated that the [REDACTED] would run only a presidential candidate in [REDACTED] but would analyze the Congressional candidates and endorse one of the two major party candidates in each of the races.

On [REDACTED] another article was published in the [REDACTED] headlined [REDACTED].

-21-

This article also discusses [redacted] intent to create a political party. The article points out that help for the [redacted] initiative is supported by your [redacted] headquarters. More than half a dozen state or regional directors of [redacted] were ordered to [redacted] to form the backbone of the petition drive. According to the article, [redacted] plans to open [redacted] regional offices in [redacted] that will be organized by your state directors who will direct volunteers in their efforts to collect petitions. Many of the state directors dispatched to [redacted], the article notes, had led meetings in their states earlier in the year regarding the possibility of your becoming a third party. [redacted], the [redacted] stated that the possible candidacy of [redacted] triggered new interest in the third party idea.

APPLICABLE LAW

Section 501(c)(4) of the Code provides for the exemption from federal income tax of organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

Section 1.501(c)(4)-1(a)(2)(ii) of the regulations provides that the promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. The regulation further provides that an "action" organization, as that term is used in the regulations under section 501(c)(3) may qualify under section 501(c)(4) if the organization otherwise qualifies under section 501(c)(4).

Under section 1.501(c)(3)-1(c)(3)(iii) of the regulations an organization is an "action" organization if it intervenes, directly or indirectly, in any political campaign on behalf of or in opposition to any candidate for public office.

Thus, an organization that is an "action" organization described in section 1.501(c)(3)-1(c)(3)(iii) because it participates or intervenes in a political campaign is not exempt under section 501(c)(4) if it does so as a primary activity.

-22-

This relationship, established by the regulations, means that precedent under section 501(c)(3) defining "direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office," bears on the question of whether or not an organization qualifies under section 501(c)(4).

Section 1.501(c)(4)-1(a)(2) of the regulations provides that to be operated exclusively for the promotion of social welfare, an organization must be operated primarily to benefit the community.

Section 527(a)(1) of the Code provides that a political organization shall be subject to taxation under subtitle A, only to the extent provided for under section 527.

Under section 527(e)(1), political organizations are parties, committees, associations, funds, or other organizations (whether or not incorporated) organized and operated primarily for the purpose of directly or indirectly accepting contributions or making expenditures, or both for an exempt function.

Section 527(e)(2) provides that the term "exempt function" means the function of influencing or attempting to influence the selection, nomination, election, or appointment, of any individual to any Federal, State, or local public office...

Section 1.527-1(c) of the regulations provides that whether an expenditure is for an exempt function depends upon all of the facts and circumstances.

Section 1.527-1(c) also provides that an exempt function includes an activity engaged in between elections which supports the process of selection, nomination, or election of an individual in the next applicable political campaign.

Section 1.527-2(c)(5)(vii) of the regulations provides an example of inter-election expenditures that are exempt function expenditures. These include expenditures by a section 527(e) political organization for training staff, drafting party rules, implementing party reform proposals and sponsoring party conventions.

Section 1.527-2(c)(5)(viii) of the regulations provides another example of exempt function expenditures. These include the expenditures by a section 527 political organization for seminars and conferences which are intended to influence persons who attend to support individuals [for] public office whose political philosophy is in harmony with its political philosophy.

-23-

In The Association of the Bar for the City of New York v. Commissioner, 858 F.2d 876 (2nd Cir. 1988), the Appeals Court for the Second Circuit considered a situation where a bar association rated candidates for elective judicial office. The Court held that the publication of the rating was participation directly or indirectly in a political campaign.

Rev. Rul. 60-193, 1960-1 C.B. 195, concludes that an organization created to encourage greater participation in governmental and political affairs qualifies for recognition of exemption under section 501(c)(4) of the Code. Activities of the organization include seminars and workshops held on the campuses of colleges and universities of the country. The subject matter of these seminars relates to the technical aspects of the political system under which the American government operates. All lecturing personnel, including academic political scientists and political leaders from the local and national levels, are required to maintain certain technical standards, and there is no advocacy of any particular political group. Seminars and workshops are moderated by permanent staff personnel of the organization in order to prevent the program from becoming partisan in character.

Rev. Rul. 67-368, 1967-2 C.B. 194, describes an organization formed for the purpose of promoting an enlightened electorate. Its primary activity is rating candidates for public office on a nonpartisan basis. In order to acquaint voters with candidates for local public offices, the organization analyzes the candidate's qualifications, such as education and experience. On the basis of its conclusions, it rates candidates as average, good, or excellent and disseminates these ratings to the public. The ruling concludes that the comparative rating of candidates, even though on a nonpartisan basis, is participation or intervention on behalf of those candidates favorably rated and in opposition to those less favorably rated. Therefore, such participation or intervention does not promote social welfare within the meaning of section 501(c)(4) of the Code and the organization does not qualify for recognition of exemption.

Rev. Rul. 81-95, 1981-1 C.B. 332, concerns an organization that was primarily engaged in activities designed to promote social welfare. In addition, the organization intervened in political campaigns on behalf of or in opposition to candidates for political office. The ruling noted that while the promotion of social welfare did not include political campaign activities, no ban had been imposed by the regulations. Therefore, as long as the organization primarily engaged in social welfare activities, it could intervene in political campaigns.

-24-

Rev. Rul. 80-282, 1980-2 C.B. 178, amplified Rev. Rul. 78-248. It discusses a situation where a section 501(c)(3) organization published a summary of the voting records of all incumbent members of Congress on selected legislative issues of importance to the organization. The summary was published as soon as was practicable after the close of the congressional session in a regular issue of the organization's monthly newsletter, which would be distributed to the usual subscribers. Each member's votes were reported in a way that illustrated whether he or she voted in accordance with the organization's position on the issue. The newsletter was politically non-partisan, and contained no reference to or mention of any political campaigns, elections, candidates, or any statements expressly or impliedly endorsing or rejecting any incumbent as a candidate for public office. No mention was made of an individual's overall qualification for public office, nor were there any comparisons of candidates that might be competing with the incumbents in any political campaign. The voting records of all incumbents were presented and candidates for re-election were not identified. The newsletter pointed out the limitations of judging the qualifications of an incumbent on the basis of a few selected votes and noted the need to consider such unrecorded matters as performance on subcommittees and constituent service. The newsletter was not targeted toward particular areas in which elections were occurring. The ruling holds that the organization was not participating or intervening in a political campaign.

Rev. Rul. 73-306, 1973-2 C.B. 179, denied exemption under section 501(c)(4) to an organization formed to represent member-tenants of an apartment complex in negotiations with landlords, in litigation, and in regulatory matters affecting tenants' interests. This organization was not described in section 501(c)(4) because it operated to benefit only the tenants of that particular apartment complex.

In contrast, Rev. Rul. 80-206, 1980-2 C.B. 185, held that an organization formed to promote the legal rights of all tenants in a community qualified for exemption under section 501(c)(4).

In American Campaign Academy v. Commissioner, 92 T.C. 1053 (1989), a school, organized to train individuals as political campaign professionals, was denied exemption under section 501(c)(3) because the school was operated for the substantial nonexempt purpose of benefiting the private interests of Republican Party entities and candidates. Although the school had a legitimate educational program, the Tax Court held that the school conducted its educational activities with the partisan objective of assisting the Republican Party as evidenced by;

-25-

- 1) the composition of the school's board of directors,
- 2) the failure of the school to counterbalance the Republican party focus of its curriculum with comparable studies of the Democratic or other political parties,
- 3) the incorporation of the school by the General Counsel of the NRCC, an unincorporated association comprised of Republican members of the House of Representatives, and
- 4) a lack of showing by the school that its graduates served in Congressional and Senatorial campaigns from both major political parties in substantial numbers.

ANALYSIS

Ideas are the lifeblood of the U.S. political system. Throughout our history, American politics has been energized by new ideas from the free silver supporters to the anti-child labor movement to the civil rights marchers. As ideas evolve from beginnings in ideological tracts and academic discourse to mass movements and political action, the Tax Code is challenged to properly respond to the latest expression of particular ideas.

The basic framework for the first stage of this evolution is section 501(c) of the Code. The Service is called upon to administer this section in an even-handed manner. In order to qualify for recognition of exemption under section 501(c)(4), for example, an organization must be primarily engaged in activities that promote social welfare. The promotion of social welfare may include activities that educate the public or lobby public officials or both. Exemption is not dependent on the point of view of the educational material or the issue being lobbied. Often, opposing sides of a particular issue are emphasized in the programs of two different section 501(c)(4) educational organizations. Similarly, two social welfare organizations may lobby the legislature, each on different sides of the same issue.

Once a particular idea or set of ideas enters the electoral phase of the political discourse, the tax consequences are less clear. In contrast to lobbying and educational activities, partisan political campaign activity does not promote social welfare as defined in section 501(c)(4). Such activity promotes the interests of one political faction. An organization engaging in such activity is engaged not merely in the clash of ideas, but in a contest for power. An organization exempt under section 501(c)(4) is not strictly prohibited from engaging in political

-26-

campaign activities. Rather, as illustrated in Rev. Rul. 81-95, supra, such organization cannot be primarily engaged in such activities.

The tax treatment of political parties, prior to the enactment of section 527, consistently rejected the idea that they were organizations exempt under section 501(c). See a.g. Communist Party of the U.S.A.; TC Memo 1965-270.

Under section 527, the test of exemption is whether you are primarily engaged in the function of influencing or attempting to influence the selection, nomination, election, or appointment, of any individual to any Federal, State, or local public office... Section 527 is not merely concerned with the campaign process, however. Section 527 recognizes that many political parties have a permanent structure that remains active between elections. Thus, what it means by influencing or attempting to influence the selection, nomination, election, or appointment, of any individual to any Federal, State, or local public office includes activity between elections that supports this process. Section 527 does not require an organization to benefit the community.

Section 527 is also intended as the exclusive section that spells out the tax treatment applicable to political organizations. Congress enacted section 527:

Because the questions involved in this area require a delicate balance between the need to protect the revenue and the need to encourage political activities, which are the heart of the democratic process... see S. Report 93-1357, 93rd Congress 2nd Sess. (1974)

Read together, Rev. Rul. 81-95, supra, and section 527 suggest that if an organization's primary activities are exempt function activities under section 527(e)(2), [which may include political campaign activities described in section 501(c)(3)], the organization cannot be exempt under section 501(c)(4). Such organization will be treated as a political organization. Exempt function activities include those that political parties engage in between elections that support the electoral process.

Based on the information you submitted, it appears that you were created for the purposes of promoting the ideas promulgated by [redacted] in [redacted] lobbying of Congress both directly and with grassroots campaigns; influencing the election of candidates for public office who subscribe to those principles; and serving as the basis for the [redacted] effort [redacted]. In this, you most closely resemble a political party between campaigns.

-27-

[REDACTED] as a member of your Board of Directors during [REDACTED] stated that you "offer votes that are available so that members of Congress can adopt our agenda." He also stated "the impact we have is to get people running for office to adopt our agenda in order to get elected." You have indicated that your goal is to get candidates for public office to recognize the importance of your members and to be responsive to their views on public policy and governmental issues in order to gain support for their candidacies.

Your national/independent state framework permits you to exercise significant influence over the activities of the State Chapters. The policy positions are set by you and communicated to your members through the State Chapters. If you do not like what a State Chapter does, you can revoke its charter. Thus, all communications in your organization flow down to your members. State Chapters are told in advance what your platform is. It is their job to inform their members of your positions. In fact, your function is very similar to the function of a political party: i.e. to establish a party platform, inform the electorate, and get candidates to adopt your agenda to get elected.

The evidence you submitted indicates that you have provided employment for a cadre of party professionals. You have organized a national structure and have begun building lists of potential voters and contributors. You organize volunteers and serve as a rallying point between elections. You help register groups that are likely to be sympathetic to your cause. Most significantly, you keep [REDACTED] issues alive between Presidential elections and use these ideas as your central themes in selecting candidates most in harmony with your views. You advise your membership of selected candidates in the manner outlined in your [REDACTED]. The evidence also indicates that you were active in the formation [REDACTED]

Your [REDACTED] are a pivotal document as they are a summation of where your organization has been and where it intends to go. When viewed in context, it leads to the conclusion that your other activities were merely a part of a continuum, from set up (the creation of a party platform through your initial infomercials and other informational meetings) to party building, and [REDACTED]. The fact that all of your current activities were not in place initially, does not change the result.

You claim to be a nonpartisan issues-oriented organization. We would certainly concede that you are issues-oriented. Your activities are no less partisan, however, because they are not

-28-

Your organization is formed around a central core of principles that deal with a broad spectrum of issues (much broader than a typical advocacy group) and (unlike an advocacy group) you are interested in wielding political power, both in the political and legislative arenas, and to advance your interests in the next electoral cycle. You adopted [redacted] conference to influence the elections accordingly.

Unlike the organization described in Rev. Rul. 60-193, supra, which encouraged participation in the political process by explaining the process on a nonpartisan basis, you were created for the partisan objective of promoting [redacted] platform and those candidates for public office that adopt it.

You are structured along the lines of a political party to facilitate political action from your headquarters down to the Congressional District level. Your national/state framework provides a controlled network for the implementation of your programs. Although you have not fielded candidates under your own name to date, you seek out candidates willing to adopt your policies. Your agenda amounts to a political platform communicated through radio, television, publications, direct mail, telemarketing, and the statements of your founder and directors.

Based on the facts and circumstances represented herein, we conclude that you are a political organization taxable under section 527(a)(1) of the Code. Accordingly, you do not qualify for exemption under section 501(c)(4).

In addition, when we examine each of your significant programs, we find elements that serve your electoral goals.

Following your first broadcast, the [redacted], "viewers were mailed a petition to elicit their opinions. Questions were designed by [redacted] and limited to issues he raised in the broadcast. Because of complaints regarding the bias evidenced in the questions, [redacted]

This survey was also limited to issues raised by [redacted] in the broadcast and permitted only limited short-answer responses. Through your efforts, the results of the [redacted] survey were widely publicized to demonstrate to Congress the interest of your members and the public in a balanced budget.

-29-

Your [REDACTED] was not a nonpartisan educational research effort. Rather, in limiting questions to a narrow range of issues, posing them so as to elicit particular responses, and disseminating the results in the manner described, the [REDACTED] was designed, and was used, as a partisan political tool. The platform, developed and refined through this initial survey, became the basis for later candidate questionnaires and scorecards. These were used for the purpose of identifying sympathetic politicians and getting your members to vote for them.

While the results of the polls and the petitions were made available to the Congress, there is no evidence that this served a lobbying purpose. While there may have been relevant legislation pending on some of the issues, larger, longer range purposes were served. Congress was put on notice that [REDACTED] followers were being organized around a number of issues and they would play an important role on the political landscape for some years to come.

Candidate Forums

Your most prominent activity has been the sponsorship of candidate forums for your members and the general public. These forums were often preceded or followed by candidate questionnaires the results of which were distributed widely to your membership and the general public. Your "model" for this activity, as evidenced by your submissions, was the questionnaires and forums you sponsored in connection with the [REDACTED]

Your activities surrounding [REDACTED] in your endorsement of one candidate - [REDACTED] - for office. While you have attempted to distinguish your "support" for [REDACTED] we think that the clear import of The Association of the Bar for the City of New York, supra, is otherwise.

In that case, the Appeals Court for the Second Circuit considered the situation where a Bar Association rated candidates for elective judicial office. The Court held that the publication of the rating was participation directly or indirectly in a political campaign. In reaching its conclusion, the Court stated, at page 880:

Indeed, the Association concedes that it is attempting to "ensure" that candidates whom it considers to be legally and professionally unqualified" are not elected to office... In

-30-

pursuing this activity, the Association falls clearly within the definition of an "action" organization, i.e. one that "participates or intervenes, directly or indirectly in any political campaign...."

Because your questions were limited to those issues on which you have taken a position [REDACTED], we cannot conclude that these forums were conducted without evidence of bias. In fact, we believe that you are similar to the organization described in Rev. Rul. 78-248, Situations 3 and 4, supra, in that the questions you asked the candidates did evidence a bias through their limited scope.

As we have indicated above, if activities are political campaign activities, they are those of an "action" organization described in the regulations under section 501(c), and are inconsistent with exemption under section 501(c)(4). These activities are, however, consistent with the examples of exempt function expenditures contained in section 1.527-2(c)(8) of the regulations.

College Membership Program and Voter Registration Drive

Your college program has consisted mainly of activities designed to increase your membership and register college age voters. As indicated by your literature, the voter registration program in particular has been aimed at securing new registered voters who will vote for candidates who favor positions you espouse; it cannot be considered nonpartisan.

The college program differs little from the Young Democrats and Young Republicans, political groups also operating on campus. Seeking the participation of college age voters is part of your national agenda to garnish support for your party platform and goals.

Congressional Scorecard

Your newsletter frequently contains a "Congressional Scorecard" legend, indicating how each Senator and Representative voted on issues that you have identified as important through your National Agenda. In addition to limiting the issues covered, you have indicated agreement or disagreement with the vote by placing a large "thumbs up" sign by favored votes and a "thumbs down" sign next to those with which you disagree.

One of the clear differences between the scorecards published in your newsletters and the scorecard discussed in Rev. Rul. 80-282, supra, is the linkage in your newsletters between a

-31-

legislator's vote on issues such as [REDACTED]. This may not be critical in the judgment as to whether you were involved in campaign intervention. On the other hand, it is consistent with the definition of exempt function activity under section 527(e)(2). It is something political parties do between elections to support sympathetic candidates in the next election cycle. Political parties frequently take positions on public policy, so that they can endorse candidates based on a legislative record.

Your Congressional Scorecard does not meet the criteria set forth in Rev. Rul. 78-248, *supra*, or Rev. Rul. 80-282, *supra*, to be considered nonpartisan voter education. It also constitutes partisan political campaign activity because it takes place in the context of political campaigns.

Lobbying

You assert that many of your activities may be characterized as lobbying, both direct and grassroots. We are unable to conclude from your submissions, however, what specific pieces of legislation were being lobbied, how much was spent by your organization for the purpose, and even whether the activity was attributable to you or to [REDACTED]. Moreover, when you took a public stance on the issues as you did, for example, in the first of the National Referenda, you did so as much or more for membership and agenda-building purposes as for any specific lobbying purpose.

If there is "lobbying", it is only incidental. The scoreboards primarily serve partisan political objectives. They serve as rallying points to attract new members and to generate momentum for your fledgling political movement. Your newsletters contain more political commentary than lobbying. Media campaigns using 800 and 900 telephone numbers to generate petitions also serve as an additional means of identifying sympathetic voters for recruitment purposes. Further, your lobbying activities are minimal when compared with the massive commitment of resources, particularly the efforts of thousands of volunteers, that will be required to achieve your stated objectives of electing candidates at all levels of government and exercising control of the Congress.

The [REDACTED] the [REDACTED] with the [REDACTED] submitted at the same time, coupled with your recent involvement in the creation of the [REDACTED], shows your continuing activities are incompatible with exemption under section 501(c)(4) of the Code. Each of your activities constitutes intervention in political

-32-

campaigns as opposed to political education. When viewed as a whole, it is clear that the totality of your activities are permeated with political purpose.

An organization exempt under section 501(c)(4) of the Code must be operated exclusively for the promotion of social welfare. Benefitting select individuals or groups, instead of the community as a whole, is contrary to this requirement. Thus, the tenants' organization described in Rev. Rul. 73-306, supra, is distinguishable from the one described in Rev. Rul. 80-206, supra, in that its activities are directed primarily toward benefitting its member-tenants rather than all tenants in the community. Accordingly, a sufficient amount of benefit to select individuals will preclude an organization that would otherwise qualify for exemption from being described in section 501(c)(4). The decision in American Campaign Academy, supra, is relevant here. In both the American Campaign Academy case and in this case, the organizations were created to serve a particular faction in the political spectrum.

When a particular agenda is advanced in the electoral process by supporting candidates that adhere to it, the community as a whole is benefitted only indirectly. What is benefitted directly is the group whose agenda is being advanced. Congress, when it made section 527 the exclusive provision governing the tax treatment of political parties, also recognized that groups whose primary purpose is to serve the electoral process have too narrow a focus to qualify under section 501(c)(4).

The evidence you have submitted also establishes that your interests are inextricably joined with those of [REDACTED]. You were created and have operated for the principal purpose of promoting [REDACTED] ideas as developed in the [REDACTED] campaign and subsequently in his writings, television appearances, and speaking engagements. Your staff is under contract to help in the winding down of his [REDACTED] campaign. [REDACTED]. The Board, even after it was reorganized, consists of a majority of individuals appointed by [REDACTED] of the original Directors (who are still Directors) and most of your key employees remain on [REDACTED] payroll, "volunteering" their time to work for your organization.

[REDACTED] has personally funded a number of your activities including the costs of producing and airing the infomercials. The sort of control that he exercised over your public posture is illustrated by his personal involvement in designing questions for your first member survey, that took place in connection with the first program in the [REDACTED]

-33-

During [REDACTED] before you were significantly funded, he provided your organization, free of charge, the services of [REDACTED]. In a real sense, your organization has served as his political alter ego, both in his public appearances and before Congress. It is impossible to separate your interests from his. He remains an unpaid volunteer for your organization. You are also the publisher of [REDACTED] books.

Because you are controlled by [REDACTED] and his related interests, you are, in fact, indistinguishable from his individual agenda. You were created as a vehicle to keep [REDACTED] in the limelight. By acting as an alter ego for [REDACTED] you continue to expand his influence in the public arena. With your support, [REDACTED] has succeeded in creating a third national political party. Your activities enhance his power in influencing the selection of political candidates. This is a private purpose that does not serve the community as a whole. This private purpose is so substantial as to preclude exemption under section 501(c)(4).

CONCLUSION

In summary, we conclude that some of your activities constitute direct and indirect participation or intervention in political campaigns on behalf of or in opposition to candidates for public office. Your activities that support the electoral process are so substantial as to support our further conclusion that your primary activities are those of a political party between elections. As such, you cannot qualify under section 501(c)(4) of the Code both because Congress enacted section 527 as the exclusive section governing the tax treatment of political parties and because you serve too narrow a focus.

In addition, we conclude that your activities also substantially benefit [REDACTED] as an individual. Therefore, you are not primarily engaged in activities that promote social welfare and do not qualify for recognition of exemption under section 501(c)(4) of the Code.

If you have political organization taxable income, you must file Form 1120 POL and pay the tax.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a

-34-

right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director. Thereafter, any questions about your federal income tax status should be addressed to that office.

You will expedite our receipt of your reply by using the following address on the envelope:

Internal Revenue Service
1111 Constitution Avenue
Washington, D.C. 20224
Attn: [REDACTED] Room 6138

Sincerely yours,

[REDACTED]
Acting Chief, Exempt
Organizations
Rulings Branch [REDACTED]

cc: [REDACTED]

cc: [REDACTED]

[REDACTED]