

NOV 20 1989

Dear Applicant:

We have considered your application for recognition for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

The information submitted discloses that you were incorporated under the laws of [REDACTED] on [REDACTED].

You have been established for the purpose of promoting district-wide participation in the pageant activities by young women; raise money through selected participants of the pageant; organize, produce, conduct, and administer the [REDACTED] pageant in accordance with the above purposes.

Your activities consist of coordinating as many as [REDACTED] local pageants from which winners will be selected to participate in the district-wide pageant. It will train judges and arrange for fair and impartial judges to officiate at the local pageants. The organization will fully coordinate the [REDACTED] pageant. It will rent a theatre; provide training workshops for contestants and accommodations for judges and contestants; prepare printed programs for the pageant; sell tickets; and generate publicity.

Income is derived from corporate contributions, program advertising, admissions to pageant, program sales, workshop fees and public contributions.

Expenditures are for pageant operation, scholarship award, administrative expenses, salaries, travel, and miscellaneous expenses.

Section 501(c)(3) of the Code provides for the exemption for Federal income tax of organizations organized and operated exclusively for charitable, scientific, or educational purposes, no part of the net earnings of which inure to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations states that in order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one of the purposes specified in the section. The organizational test relates to the rules for governing an organization and the purposes stated in its articles of organization. The operational test relates to the organization's activities. If an organization does not meet either the organizational or operational test, it is not exempt.

In Miss Georgia Scholarship Fund, Inc., v. Commissioner of Internal Revenue, the court stated that the scholarships awarded to the contestants in the Miss Georgia Pageant are forfeitable. Each contestant as a quid pro quo for services rendered under the contestant contract is compensated in the form of a "scholarship". To those contestants who fail to execute the contestant contract with Georgia pageant, these "scholarships" are not available. Thus, by refusing to sign the contestant contract, a contestant will forfeit her right to receipt of the "scholarship".

In Rev. Rul 68-20, 1968-1 C.B. 55, an organization that provides "scholarships" as payment for the contestant's agreement to perform the requirements of the contestant contract is compensatory in nature. A scholarship for compensation is not a scholarship within the meaning of section 117.

Because your organization provides for "scholarships" to contestants, as long as a contestant contract is signed, these "scholarships" are compensatory in nature. Therefore, you are not operated exclusively for charitable purposes under section 501(c)(3) of the Internal Revenue Code.

Based on the information provided, we have concluded that you do not qualify for tax-exempt status as an organization described in Section 501(c)(3) of the Code.

Contributions to your organization are not deductible under Code section 170. You are required to file Federal income tax returns on Form 1120.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office, or if you request, at any mutually convenient District Office. If we do not hear from you within 30 days from the date of this letter, this determination will become final.

[REDACTED]

A copy of this letter will be sent to the appropriate state officials in accordance with section 6104(c) of the Internal Revenue Code.

If you do not protest this proposed determination in a timely manner, it will be considered as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that: "A declaratory judgment or decree under this Section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

Sincerely yours,

[REDACTED]
District Director

Enclosure: Publication 892

cc: [REDACTED]
[REDACTED]