

Internal Revenue Service

Department of the Treasury

District
Director

P. O. Box 99191, Cleveland, Ohio 44109

Person to Contact:

Telephone Number:

(Toll Free)

Refer Reply to:

Date: NOV 30 1981

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The information submitted indicates that you were incorporated on [redacted] under the [redacted] Non-profit Corporation Law. Your stated purpose is educational with economics being the principal educational area. The purpose relates to: the instruction of individuals to develop their capabilities; the instruction of the public on subjects useful and beneficial to it. The activities stated in the articles of incorporation consist of presenting public discussion groups, lectures, etcetera, and providing member services in furtherance of its purposes.

You stated that your organization provides a communication forum, e.g. through flyers and meetings, for its members to discuss and practice economic principles. A particular information flyer, for example, may discuss the low unit price of peaches purchased in bulk quantity. Then the organization may hold a forum of interested members to discuss the issue further. Finally several members may request the corporation to purchase peaches in bulk quantity, and the members split the cost and the peaches.

You, also stated the following: "The main fund raising activity will be when members give ownership of bulk, third class mail to the corporation, the corporation will mail it as the corporations own mail for a fee. This fund raising program is not fully in effect. However, the Corporation has applied for a Special Bulk Mailing Permit with the U.S. Postal Service."

Your proposed income will be from membership application fees, member annual dues, donations and mail service fees. Your proposed expenses will be for mail permit, envelopes and postage, board meetings, mail administration contract, annual meeting costs and advertising and distributions per Articles of Incorporations. It appears that the majority of your income will be for your mail contracting service.

The founders, trustees and the officers of your organization are three family members, [REDACTED], [REDACTED], [REDACTED] and [REDACTED].

In general, Internal Revenue Code 501(c)(3) organizations are described in that section as those which are "organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, 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....".

Internal Revenue Code Regulations 1.501(c)(3)-(a)(1) states:

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 or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Internal Revenue Code Regulations 1.501(c)(3)-1(b)(1) states:

An organization is "organized exclusively" for one or more exempt purposes only if its articles of organization limit the purposes of such organization to one or more exempt purposes and do not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.

Internal Revenue Code Regulations 1.501(c)(3)-1(c)-(1) specifies:

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). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Internal Revenue Code Regulations 1.50(c)(3)-1(d)-1(1)(ii) states:

An organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (1) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirements of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals.

On the basis of the information submitted, we have concluded that you are not operated, or will not operate in the future, exclusively for one or more exempt purposes as specified in section 501(c)(3).

The activities of contracting with members, individuals, agencies, etc. for use a third rate mailing permit of an exempt organization at a fee and the rendering of service to members for bulk purchases of products, etc. are not permitted activities under section 501(c)(3). Thus, you do not meet the operational test of section 501(c)(3) of the Code.

It is further the opinion of this office that you do not qualify for exemption under any other subsection of section 501(c) of the Code. Therefore, you are not relieved of the responsibility for filing federal income tax returns on Form 1120. Contributions to your organization are not deductible.

If you are not in agreement with this determination, you may file a protest within 30 days from the date of this letter in accordance with the instructions contained in the enclosed Publication 892.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service 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."

If we do not hear from you within 30 days, this letter will become our final determination. Also, the appropriate State official will be notified of this action in accordance with Section 6104(c) of the Code.

Very truly yours,



District Director

Enclosure:
Publication 892