

**Internal Revenue Service**

**Department of the Treasury**

District  
Director

P.O. Box 1680, GPO Brooklyn, N.Y. 11202

Date: MAR 23 1987

Person to Contact:

Contact Telephone Number:

Refer Reply to:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for tax-exempt status under section 501(c)(3) of the Internal Revenue Code.

The evidence presented disclosed that you were incorporated on [REDACTED] under the laws of the State of [REDACTED].

Your purposes per your Certificate of Incorporation are, in part, to promote and maintain the health and welfare of the inhabitants of the communities within the territory which the Corporation may from time to time serve; to prevent disease; to provide management and other services to public charities and other organizations which are engaged in any of the foregoing activities.

[REDACTED] will carry out managerial functions (for example, accounting services) for the [REDACTED] and other affiliated organizations which are exempt under section 501(c)(3) of the Code. Your organization's revenue is derived from management service fees from [REDACTED] and other affiliated companies. You charge fees sufficient to cover your expenses - which consist of salaries, rent and other miscellaneous items.

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

In order to qualify under IRC 501(c)(3), an organization must be both "organized" and "operated" exclusively for one or more purposes specified in that section. If the organization fails to meet either the organizational test or the operational test, it is not exempt. (Regs. 1.501(c)(3)-1(a)(1)). 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.

Section 1.501(c)(3)-1(d)(2) of the Regulations provides that the term "charitable" includes relief of the poor and distressed, advancement of education and science and the promotion of social welfare designed to accomplish any of the above purposes.

Section 1.501(c)(3)-1(e) of the Income Tax Regulations states that an organization may meet the requirements of section 501(c)(3) although it operates a trade or business if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business as defined in section 513.

Revenue Ruling 71-529, 1971-2 C.B. 234 describes an organization which provides assistance in the management of their investment funds for a charge substantially below cost. Organizations pay only a nominal fee for the services performed. The remainder of expenses are paid by contribution income.

It was held that this organization could qualify for exemption under Code section 501(c)(3) since the organization performed "essential functions for charitable organizations" for a charge that was substantially below cost.

Revenue Ruling 72-369, 1972-2 C.B. 245 describes an organization formed to provide managerial and consulting services on a cost basis. The organization's receipts are from services rendered and disbursements are for operating expenses. The ruling states that an organization is not exempt merely because its operations are not conducted for the purpose of producing a profit. The provision of managerial and consulting services on a regular basis for a fee is a trade or business ordinarily carried on for profit. The fact that the services are provided at cost and solely for exempt organizations was not sufficient to characterize the activity as charitable within the meaning of section 501(c)(3).

On the basis of evidence presented, we hold that [REDACTED] is not organized and operated exclusively for charitable purposes within the meaning of Code section 501(c)(3). Your organization is providing managerial services for fees which constitutes a business operation regularly carried on for-profit. The fact that you will not make a profit is not sufficient to classify your activity as charitable. Furnishing the services at cost lacks the donative element necessary to establish you as charitable. Therefore, as in the organization described in Revenue Ruling 72-369, your organization does not qualify for exemption under section 501(c)(3) of the Code and we propose to deny your request for exemption.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

Contributions made to you are not deductible by the donors as charitable contributions as defined in section 170(c) of the Code.

If you do not agree with this determination you may protest in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completions.

If we do not hear from you within that time this determination will be considered final and the appropriate State Officials will be notified.

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 Claims Court, 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."



District Director

Enclosure: Publication 892