

[REDACTED]

NOV 05 1984

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

Dear Applicant:

This letter is a final adverse ruling with respect to your request for classification as an organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

Our adverse ruling was made for the following reason(s):

You are not organized exclusively for exempt purposes as required by section 501(c)(3). You are a state instrumentality and an integral part of the state government. Furthermore, you are not operated exclusively for section 501(c)(3) purposes because of your regulatory activities.

Accordingly, you do not meet the requirements for exemption from income tax under section 501(c)(3) of the Code. This adverse ruling has no effect on the [REDACTED] private letter ruling from the Internal Revenue Service concluding that your income is not subject to federal income taxation. That ruling remains in full force and effect.

If you decide to contest this ruling under the declaratory judgment provisions of section 7428 of the Code, you must initiate a suit in the United States Tax Court, the United States Claims Court, or the United States District Court for the District of Columbia before the 91st day after the date on which this ruling was mailed to you. Contact the clerk of the appropriate court for rules for filing petitions for declaratory judgment.

In accordance with the provisions of section 6104(c) of the Code, we will notify the appropriate state officials of this ruling.

If you have any questions, please contact the person whose name and

[REDACTED]

telephone number are shown in the heading of this letter.

Thank you for your cooperation.

Sincerely yours,

(signed) [REDACTED]

[REDACTED]

Chief, Exempt Organizations  
Conference and Review Branch

cc: [REDACTED]

cc: Attorney General of [REDACTED]  
[REDACTED]

cc: [REDACTED]

[REDACTED]

DISTRICT DIRECTOR  
INTERNAL REVENUE SERVICE  
RECEIVED

JUL 21 1983

18 JUL 1983

CHIEF, EP & EO DIVISION  
SAN FRANCISCO DISTRICT

EIN: [REDACTED]

ED: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income taxation as an organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

The information submitted indicates that you were formed as an administrative arm of [REDACTED] on [REDACTED] by its promulgation of rules governing your existence and operation. Your purpose is to enforce minimum requirements of continuing education for active members of your state bar.

In operation you accredit courses offered by various institutions and individuals as acceptable for fulfilling [REDACTED] lawyers' continuing legal education requirements, and you verify bar members' compliance with the requirements of such legal education. You conduct no education programs yourself.

Your revenues are entirely from annual fees paid by active members of your state bar and from interest thereon. Expenditures are for salaries, mailings, rent, and administrative expenses.

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

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations provides that, in order to be exempt as an organization described in section 501(c)(3) of the Code, 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.

Section 1.501(c)(3)-1(b)(1)(i) of the regulations provides that, in general, 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.

Section 1.501(c)(3)-1(b)(1)(iii) of the regulations provides that an organization is not organized exclusively for one or more exempt purposes if its articles expressly empower it to carry on, otherwise than as an insubstantial part of its activities, activities which are not in furtherance of one or more exempt purposes, even though such organization is, by the terms of such articles, created for a purpose that is no broader than the purposes specified in section 501(c)(3) of the Code.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that 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) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for any exempt purpose unless it serves a public rather than a private interest.

Section 1.501(c)(3)-1(b)(1)(iv) of the regulations provides that in no case shall an organization be considered to be organized exclusively for one or more exempt purposes, if, by the terms of its articles, the purposes for which such organization is created are broader than the purposes specified in section 501(c)(3) of the Code.

Section 1.501(c)(3)-1(d)(2) of the regulations states that the term "charitable" is to be used in its generally accepted legal sense.

Rev. Rul. 60-184, 1960-2 C.B. 172, states the circumstances under which wholly-owned state instrumentalities may qualify for exemption under section 501(c)(3) of the Code. To do so such an instrumentality must be organized and operated exclusively for charitable or educational purposes as a counterpart of an organization described in section 501(c)(3), and must be separately organized. If the organization conducting the activity, although a separate entity, is clothed with powers other than those described in section 501(c)(3), it would not be a clear counterpart of a section 501(c)(3) organization. For example, where a wholly-owned state or municipal instrumentality exercises enforcement or regulatory powers in the public interest such as health, welfare, or safety, it would not be a clear counterpart of an organization described in section 501(c)(3) of the Code even though separately organized since it has purposes or powers which are beyond those described in section 501(c)(3).

A state or municipality itself, however, would not qualify as an organization described in section 501(c)(3) since its purposes are clearly not exclusively those described in section 501(c)(3) of the Code. See for example, *Estate of John C. P. Blayton v. Commissioner*,

3 B.T.A. 1343. It follows, therefore, that where the particular branch or department under whose jurisdiction the activity in question is being conducted is an integral part of a state or municipal government, the provisions of section 501(c)(3) would not be applicable. For example, where a public school, college, university or hospital is an integral part of a local government, it could not meet the requirements for exemption under section 501(c)(3) of the Code. See also Rev. Ruls. 59-152, 1959-1 C. B. 54, and 71-505, 1971-2 C. B. 232.

In Rev. Rul. 74-146, 1974-1 C. B. 129, a nonprofit organization accredited educational institutions, prepared accreditation standards, identified those schools and colleges meeting those standards, and disseminated accredited institution lists. It was separately organized, and its activities were controlled by institutional members. It was held exempt under section 501(c)(3) as advancing education by providing significant incentive for maintaining a high quality educational program.

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

The information submitted fails to show that you are more than an administrative arm or convenience of the [redacted] State Supreme Court; you have failed to show that you are an association or body corporate and separately organized from the State. Thus, you do not satisfy the organizational test of section 1.501(c)(3)-1(b) of the regulations.

In operation you regulate a small group of professionals, [redacted] attorneys in active practice, who are not a charitable group. The basic thrust of your activity is regulatory, not advancing education. Thus, you lack a charitable motive and are readily distinguishable from the situation in Rev. Rul. 74-146, supra.

Accordingly, you are not exempt from federal income taxation under section 501(c)(3) of the Code. Contributions to you are, therefore, not deductible under section 170(c)(2).

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 principal officers, must be submitted within 21 days from the date of this letter. You also have a 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 principal officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practice requirements.

[Redacted]

If we do not hear from you within 21 days, this ruling will become final and copies of it will be forwarded to the District Director, San Francisco, California. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to that office. Also, the appropriate State officials will be notified of this action in accordance with section 6104(c) of the Code.

If you do not protest this proposed ruling in a timely manner, the Internal Revenue Service will consider you to have failed 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."

Sincerely yours,

(Signed) [Redacted]

[Redacted]  
Chief, Rulings Section  
Exempt Organizations  
Technical Branch

*orig mailed  
7-18-83*

cc: [Redacted]  
cc: [Redacted]  
cc: [Redacted]

*w/f 7-5978*

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	[Redacted]	[Redacted]					
Surname	[Redacted]	[Redacted]					
Date	7/8/83	7/14/83					