

Social welfare; art exhibit sponsorship. A nonprofit organization whose purpose is to develop and encourage interest in painting, sculpture, and other art forms by conducting, in a noncommercial manner, a community art show qualifies for exemption as an organization operated exclusively for the promotion of social welfare under section 501(c)(4) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization's stated purpose is to develop and encourage interest in painting, sculpture, and other art forms. To carry out its purpose, the organization conducts an annual three-day community art show. Any adult or high school student residing in the local area may enter original works for display in accordance with the organization's rules.

Public admission to the exhibition is free. Items on exhibit may or may not be offered for sale. If they are for sale, the artist sets the sales price. To help cover its expenses, the organization charges a small exhibitor's fee for entries displayed and retains 10 percent of the sale price on items sold. The organization also prepares an exhibition catalog which it sells for a nominal fee.

The organization sets aside a substantial portion of the exhibit area for the art students in the local high schools to display their works and to demonstrate different artistic techniques. The organization does not charge the exhibitor's fee for the items displayed in this portion of the exhibit area nor does it collect the 10 percent sales commission on items sold.

In addition to income from exhibitors' fees, sales commissions, and catalog sales, the organization receives membership fees and contributions. Its expenses include insurance, rent, and supplies in connection with the art show. Volunteers do most of the work in organizing and conducting the show.

Section 501(c)(4) of the Code provides for the exemption from Federal Income Tax of civic leagues or 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 an organization is not operated primarily for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations which are operated for profit.

The organization described here conducts its annual art show in a noncommercial manner. The show features items created by local residents, regardless of whether they are amateur or professional artists. Although the organization charges an exhibitor's fee and a sales commission, the availability of a work for sale is at the discretion of the individual artist and is not a requirement for exhibition. Admission to the show is free, and most of the work is done by volunteers. Further, substantial space is made available to high school art students at no charge. Although some private interest is served by the organization when artists profit from the sale of their works, the organization is primarily engaged in promoting the common good and general welfare of the people of the community in view of the show's community orientation and participation.

Thus, the organization is operated exclusively for the promotion of social welfare and is exempt from Federal income tax under section 501(c)(4) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(4) of the Code. The application should be filed with the District Director of Internal Revenue for the key district indicated in the instructions to the Form 1024. See section 1.501(a)-1 of the regulations.