

INTERNAL REVENUE SERVICE  
District Director  
2 Cupania Circle  
Monterey Park, CA 91755

DEPARTMENT OF THE TREASURY

Date: OCT 24 1996

Employer Identification Number:  
[REDACTED]

Case Number:  
[REDACTED]

Person to Contact:  
[REDACTED]

Telephone Number:  
[REDACTED]

Refer Reply to:  
[REDACTED]

Dear Applicant:

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

The information submitted disclosed that you were incorporated [REDACTED]

You previously applied for exemption as an organization described in section 501(c)(3) of the Code in 1984. You were advised at that time that you were not organized and operated exclusively for charitable purposes as defined in section 501(c)(3) of the Code. You subsequently requested that you be considered for tax exempt status as a social welfare organization as defined in section 501(c)(4) of the Code. We determined you were exempt from Federal income tax under the provisions of section 501(c)(4) of the Code in Letter 948, dated September 21, 1984."

FACTS:

The purpose of your organization, per your Articles of Incorporation reads as follows:

"The specific purpose of this corporation is the promotion of social welfare by initiating, sponsoring, promoting and carrying out plans, policies and activities that will promote the retention and expansion of businesses and the retention and creation of employment opportunities in the area of [REDACTED]

According to your application, Form 1023, "It is the intent of the [REDACTED] to serve as a conduit between government and business to increase the economic base of the [REDACTED] area and as such to generate income for the [REDACTED] that will be used solely for improving the quality of life within the community."

You also state that, "it is the [redacted]'s intent to re-distribute any profits to improve the quality of life in the [redacted]"

The initial tasks of your organization include:

- a. re-structuring of the current economic base to focus on business and community development,
- b. analysis of the current economic base,
- c. development of marketing brochures to attract new business,
- d. identifying and pursuing funding sources to support the relocation of businesses and expansion of existing businesses within the community.

A copy of your marketing brochure and loan application have not been developed as of this date.

The Strategic Plan included in your application packet states that the rate of unemployment in the [redacted] is [redacted]%. It states: "[redacted] maintains its own full service police, fire, and transportation services. [redacted] provides a vast number of social services not generally found in cities of similar size. [redacted] has maintained a small-town atmosphere where government is accessible, neighborhoods are stable, people take pride in their origins and business and families prosper".

Information in the Plan indicates that much of [redacted] focus will be to improve areas of the City that have been historically significant. The areas include:

- a. Downtown area of [redacted]
- b. [redacted]
- c. [redacted]
- d. [redacted]

Information provided in a letter dated June 14, 1996 shows that you plan to target the [redacted], [redacted] and [redacted].

We requested that you provide written evidence that the areas you plan to serve were designated as blighted or low-income. A copy of the Department of Housing and Urban Development "Percent of Low and Moderate Persons by Block Group and Census Tract" was provided. A map of the [redacted] was provided which indicates you plan to target approximately four areas that have greater than 50% of the residents in the low to moderate income level. You indicated on the map that four areas were designated as "slum/blight" by HUD. However, you have not provided documented proof from HUD or studies from Local, State or Federal agencies that has designated the targeted areas as "slum/blight."

ISSUE:

Does the organization qualify for exemption from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code?

LAW:

Section 501(c)(3) of the Internal Revenue Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

that in order to be exempt as an organization described in section 501(c)(3) of the Code, the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. An organization that fails to meet either the organizational or operational test is not exempt.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides a definition of the term "charitable" as it is used in section 501(c)(3) of the Code. The regulations state that the term is used in its generally accepted legal sense and includes the promotion of social welfare by organizations designed to relieve the poor and distressed or the underprivileged, to lessen neighborhood tensions, to eliminate prejudice and discrimination, or to combat community deterioration.

Revenue Ruling 74-587, 1974-2 C.B. 162, held that a non-profit organization formed to relieve poverty, eliminate prejudice, reduce neighborhood tensions, and combat community deterioration through a program of financial assistance in the form of low cost or long term loans to, or the purchase of equity interests in, various business enterprises in economically depressed areas is exempt under section 501(c)(3) of the Code. In selecting recipients for aid, the organization consulted with other non-profit and governmental organizations operating programs that filled a community need and offered the greatest potential community benefit. Preference was given to businesses that provided training and employment opportunities for the unemployed and underemployed residents of the area.

Revenue Ruling 76-419, 1976-2 C.B. 146, held that a nonprofit organization that purchased blighted land in an economically depressed community, converted land into an industrial park, and induced industrial enterprises to locate new facilities in the park through favorable lease terms that required employment and training opportunities for unemployed and underemployed residents of the area, is operated exclusively for charitable purposes and is exempt under section 501(c)(3) of the Code.

Revenue Ruling 77-111, 1977-1 C.B. 144, held that two organizations formed to promote economic development in deteriorated areas did not qualify for exemption under section 501(c)(3).

The first organization's purpose is to increase business patronage in a deteriorated area mainly inhabited by minority groups. The organization presented radio and television advertisements describing the advantages of shopping in the area. It operated a telephone service providing information to prospective shoppers on transportation and accommodations in the area and informed the local news media on the area's problems and potential.

The other organization's purpose is to revive retail sales in an area suffering from continued economic decline. The organization purchased land for the construction of a retail center that included a department store and a shopping mall. Minority groups were to be used in the construction and operation of the project. Stores located in the retail center were required to hire a certain percentage of minority group employees.

The revenue ruling held that although the organization's activities might contribute to achieving a section 501(c)(3) purpose, the organizations did not limit their assistance to businesses located in a deteriorated area that could not obtain

conventional financing. The organizations described in the revenue ruling did not limit their activities to assisting charitable groups in deteriorating areas but also assisted businesses which are not owned by minority groups and which are not experiencing difficulty because of their location in a depressed area.

Revenue Ruling 81-284, 1091-2 C.B. 130, held that a nonprofit small business investment company licensed under section 301(d) of the Small Business Investment Act of 1958, which was formed to relieve poverty, eliminate prejudice and discrimination, reduce neighborhood tensions, and combat community deterioration, and that provides low cost or long term loans to businesses not able to obtain funds from conventional commercial source, with preference given to businesses that provide training and employment opportunities for the unemployed or under-employed residents of economically depressed areas, may qualify for exemption under section 501(c)(3) of the Code. Rev. Rul 74-587 amplified.

In Better Business Bureau v. U.S., 326 U.S. 279 (1945) C.B. 375, the Supreme Court determined that while some of the activities of the organization under consideration were educational, a substantial purpose of the organization was to promote business, and thus the organization was not operating exclusively for educational purposes. The Court held that the presence of a single non-exempt purpose, if substantial in nature, will destroy a claim for exemption, regardless of the number or importance of the truly exempt purposes.

#### ANALYSIS AND CONCLUSION:

To be recognized as exempt under section 501(c)(3) of the Code, an organization must demonstrate that it is organized and operated exclusively for charitable purposes. The regulations state that the term "charitable" includes the relief of the poor and distressed, lessening the burdens of government, and the promotion of social welfare with programs designed to lessen neighborhood tensions, eliminate prejudice and discrimination or combat community deterioration and juvenile delinquency.

The rationale for tax exemption for economic development corporations is that although services are provided directly to for-profit businesses, the ultimate good received by the general public outweighs the private benefit accorded to the direct beneficiaries. In order to determine if an economic development organization is primarily accomplishing charitable purposes despite the element of private benefit the following factors need to be addressed:

Is the organization's assistance targeted primarily:

- (1) to aid an economically depressed or blighted area?
- (2) to benefit a disadvantaged group?
- (3) to aid businesses that are actually experiencing difficulties in obtaining conventional financing because

- (4) of their existence in a deteriorated neighborhood or because of their minority composition? and,
- (4) to aid businesses that would locate or remain in an economically depressed or blighted area and provide jobs to the unemployed?

It does not appear from the information you provided that you plan to provide assistance targeted primarily to the above mentioned groups or areas.

Although you plan to provide assistance to a few low-to-moderate income areas of [REDACTED], your overall plan, as stated in your application, is to increase the economic base of the (entire) [REDACTED] area and as such to generate income for the [REDACTED] that will be used solely for the purpose of improving the quality of life within the community. There is no information in your application to indicate that the entire city of [REDACTED], which you plan to benefit, is an economically depressed or blighted area.

It is the position of the Internal Revenue Service, based on the information submitted, that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(3) of the Code, inasmuch as you are not organized and operated exclusively for the purposes described in that Code section.

If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing 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 for a hearing. The hearing may be held at the office of Regional Director of Appeals, or if you request, at a mutually convenient District office. A self-addressed envelope is enclosed.

If we do not hear from you within 30 days from the date of this letter, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgement 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 you have any questions, please contact the person whose name appears on the heading of this letter.

Sincerely,

*Steven A. Jensen*  
District Director

Enclosures:  
Form 6018  
Publication 892

Department of the Treasury-Internal Revenue Service  
**Consent to Proposed Adverse Action**  
(All references are to the Internal Revenue Code)

Prepare in Duplicate

Case Number [REDACTED]	Date of Latest Determination Letter [REDACTED]
Employer Identification Number [REDACTED]	Date of Proposed Adverse Action Letter
Name and Address of Organization [REDACTED] [REDACTED] [REDACTED]	

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

NATURE OF ADVERSE ACTION

- Denial of exemption under section 501(c)(3) of the Internal Revenue Code
- Revocation of exemption, effective
- Modification of exempt status from section 501(c)( ) to 501(c)( ), effective
- Classification as a private foundation (section 509(a)), effective
- Classification as a non-operating foundation (section 4942(j)(3)), effective
- Classification as an organization described in section 509(a)( ), effective
- Classification as an organization described in section 170(b)(1)(A)( ), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

Name of Organization	
Signature and Title	Date
Signature and Title	Date