

NOV 11 1999  
RECEIVED

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

Date 11-30-99

██████████  
██████████  
11/30/99

to:  
OCT 4 1999

██████████  
██████████  
██████████  
██████████

Contact Person:  
██████████  
ID Number:  
██████████  
Telephone Number:  
██████████

Employer Identification Number: ██████████

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

You were incorporated under the laws of ██████████ on ██████████. Your purposes as stated in your articles of incorporation are to:

To establish Christian, religious, and educational facilities; to promote Christian religious worship, education and training; and to communicate the Gospel of Jesus Christ through a ministry of preaching and teaching by the spoken and written word; and

To carry out programs, activities and endeavors for religious purposes within the meaning of section 501(c) (3) of the Internal Revenue Code of 1986, as amended, or any corresponding provision of a successor statute.

To carry out your purposes you propose to conduct the following activities:

a. Communication Media Ministry. Bible centered, Christian principles will be fostered through effective communication media. This ministry will develop computer technology and communications channels for purposes of disseminating the Word of God. It the organization's purpose, via computer technology and the internet, to reach all people groups throughout the world. Technology is being developed to send out the Bible, Biblical resources, and other key christian literature in the native language of the country to which it is being sent. This will enable development of interactive discipleship and missionary software training and support. The organization will encourage Christian believers, reach out to nonbelievers, and help build Christian churches and schools throughout the world.

b. [REDACTED]. The organization plans to sell stones engraved with scripture, a unique way of bringing God's word into homes, offices, and people's hearts. The stones come directly from the hills in and around Jerusalem. On the back of each stone the recipient is told of its origin and is reminded to pray for the peace of Jerusalem. Currently, this activity accounts for 90% of the time and effort of the organization.

c. [REDACTED]. The organization plans to make other engraved items [which] will be made available through a catalog. Each catalog will present a wide assortment of items for the home and office, inscribed with God's word with the ministry of hope and encouragement. This catalog will be set up on the internet.

You also state that the organization may, in the future, pay compensation to [REDACTED] its President, for reimbursement of his expenses connected with the operation of the organization. Such payments will not include housing allowances, car allowances or personal living expenses. Currently [REDACTED] devotes 100% of his time to his position with the organization without compensation. He is not employed outside the organization. As president of the organization, he will provide administrative and management services, using the skills acquired from twenty-five years of retail management.

The stones will be purchased from a decorative stone manufacturer in Israel at a cost that includes the cost of the raw stone, plus the cost to engrave, paint and polish the stone. You will then offer the stones for sale at a price which not only covers the cost of the product, but includes an amount which is used exclusively for the religious activities of the organization.

You state that your exempt purposes cannot be carried on without adequate funding and the sale of the stones (along with donations from supporters of the organization) will allow the organization to develop its ministry.

You state that you will use the World Wide Web in your efforts to spread the good news of Jesus Christ. Your financial support will come from gifts and the sale of religious materials.

Section 501(c)(3) of the Code provides for the exemption of organizations organized and operated exclusively for "religious" purposes.

Organizations which are "advancing religion" within the meaning of section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations may also be recognized as exempt under section 501(c)(3) as charitable organizations.

Section 1.501(c)(3)-1(a)(1) of the regulations provides that an organization may meet the requirements of section 501(c)(3), although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and 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 of the Code. This section further provides that an organization which is organized and operated for the primary purpose of carrying on an unrelated trade or business is not exempt under section 501(c)(3) even though it has certain religious purposes, its property is held in common, and its profits do not inure to the benefit of individual members of the organization.

Section 511(a) of the Code imposes a tax on the unrelated business taxable income of certain organizations which are otherwise exempt from tax under section 501(a) of the Code, which is derived from any unrelated trade or business regularly carried on by such organizations.

Section 513(a) of the Code defines "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational or other purpose or function constituting the basis for its exemption under section 501, with certain exceptions not here relevant. It further provides that the term "trade or business" has the same meaning it has in section 162, and generally includes any activity carried on for the production of income from the sale of goods or the performance of services.

Section 1.513-1(a) of the regulations states, in part, that the income of an exempt organization is subject to the tax imposed by section 511 of the Code if three conditions are present with respect to such income: (1) the income must be from a trade or business, (2) the trade or business must be regularly carried on by the organization, and (3) the trade or business is not substantially related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the exercise or performance by the organization of the purpose or function which constitutes the basis for its exemption from tax.

Section 1.513-1(b) of the regulations provides that the term "trade or business" has the same meaning it has in section 162, and generally includes any activity carried on for the production of income from the sale of goods or performance of services. It is further provided that activities of producing or distributing goods or performing services from which a particular amount of gross income is derived do not lose identity as a trade or business merely because they are carried on within a larger complex of other endeavors which may, or may not, be related to the exempt purpose of the organization.

Section 1.513-1(d)(1) of the regulations provides that gross income derives from "unrelated trade or business," within the meaning of section 513(a), if the conduct of the trade or business which produces the income is not substantially related (other than through the production of funds) to the purposes for which exemption is granted. The presence of this requirement necessitates an examination of the relationship between the business activities which generate the particular income in question—the activities, that is, of producing or distributing the goods or performing the services involved—and the accomplishment of the organization's exempt purposes.

Section 1.513-1(d)(2) of the regulations provides that trade or business is "related" to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income); and it is 'substantially related,' for purposes of section 513, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes. Where the production or distribution of the goods or the performance of the services does not contribute importantly to the accomplishment of the exempt purposes of an organization, the income from the sale of the goods or the performance of the services does not derive from the conduct of related trade or business. Whether

activities productive of gross income contribute importantly to the accomplishment of any purpose for which an organization is granted exemption depends in each case upon the facts and circumstances involved.

An organization is not operated exclusively for charitable purposes, and thus will not qualify for exemption under section 501(c)(3), if it has a single non-charitable purpose that is substantial in nature. This is true regardless of the number or importance of the organization's charitable purposes. Better Business Bureau V. United States, 326 U.S. 278 (1945); Stevens Bros. Foundation, Inc. v. Commissioner, 324 F.2d 633 (8th Cir. 1963), aff'g, 39 T.C. 93 (1962), Cert. denied, 376 U.S. 969 (1964).

In the legislative history of the Tax Reform Act of 1969, the Committee stated that "In the case of churches, the Committee intends that the term unrelated business income does not include the operation and maintenance of cemeteries, the conduct of charitable institutions, the sale of religious articles and the printing, distribution and sale of religious pamphlets, tracts, calendars, papers, books and magazines with a substantial religious content (even though the document might contain a small amount of advertising), so long as these activities are carried on in connection with the church. The use of the limiting phrase "as long as these activities are carried on in connection with the church" evinces a legislative intent that the production of certain goods is substantially related as long as the goods have some special religious significance to the church that produces them. [S. Rep. No. 91-552, 91st Cong., 1st Sess. 71 (1969).]

In Rev. Rul. 73-105, 1973-1 C.B. 264, it was held that the sale of scientific books and city souvenirs by a museum of folk art exempt from tax under section 501(c)(3) of the Code constituted unrelated trade or business even though other items sold in the museum shop were related to its exempt function. This ruling suggested considering separately each item sold by the museum shop to determine the item's relatedness to the museum's exempt function of enhancing the public's understanding and appreciation of art. The ruling noted that scientific books and souvenir items relating to the city where the museum was located had no causal relationship to art or to artistic endeavor and, therefore, the sale of those items did not contribute importantly to the accomplishments of the museum's exempt educational purpose. The fact that some of these items could, in a different context, have been held related to the exempt educational purpose of some other exempt educational organization did not change the conclusion that, in this context, they did not contribute to the accomplishment of this organization's exempt educational purpose.

In order to qualify for exemption under section 501(c)(3) of the Code, you must establish that you are organized and operated exclusively for religious, charitable, or educational purposes and that no part of your net earnings inure to the benefit of a private individual or shareholder.

The import and re-sale of [REDACTED] is not per se substantially related to any exempt function within the meaning of section 513(a) of the Code. The production and sale of religious arts and crafts, vestments, and altar furnishings may be substantially related to a religious purpose if the items produced and sold have some special religious significance to the church that produced them. Your sale of these items, intended primarily for home and office use, by mail order, over the internet, or otherwise does not, in this context, establish a causal relationship with such a religious purpose. See, Rev. Rul. 73-105 cited above.

[REDACTED]

You have failed to establish that your primary activity, the import and re-sale of [REDACTED], and mail order sales of other religious materials through your catalog and on the Internet is other than an ordinary trade or business regularly carried on for the production of income and substantially unrelated to any exclusively religious, educational, or otherwise charitable purpose within the meaning of section 501(c)(3) of the Code. You have stated that one purpose of this activity, which consumes 90 percent of your time and effort, is to produce the income needed to conduct your other activities consisting primarily of developing computer technology and communications channels for internet dissemination of the Bible, Biblical resources, and other key Christian literature, and acquiring and reselling the [REDACTED]. The only causal relationship between your non-religious business activities and your other purported exempt functions is that the business activities will produce income that is needed in order to conduct your other activities. Section 513(a) of the Code provides that the business activity must be substantially related aside from the need of the organization for income or funds or the use it makes of the profits derived.

Because your primary activity, the sale of the [REDACTED], and other materials from your catalog on the Internet is a non-charitable purpose that is substantial in nature, and you have failed to establish that your activities are otherwise exclusively religious, charitable or educational in nature, you do not qualify for exemption as an organization described in section 501(c)(3) of the Code. See, Better Business Bureau, cited above.

You must file federal income tax returns.

Contributions to you are not deductible under section 170 of the Code.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views to this office, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 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 officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If you do not protest this ruling 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 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 United States Court of Federal 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 ruling will become final and a copy will be forwarded to the Ohio EP/EO key district office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, EP/EO Customer Service, P.O. Box 2508, Cincinnati, OH 45201. The appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

4.1.1992

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Internal Revenue Service  
[REDACTED] OP:E:EO:T:3 Rm. 6133  
1111 Constitution Ave, N.W.  
Washington, D.C. 20224

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

(signed) Robert C Harper, Jr.

Robert C. Harper, Jr.  
Chief, Exempt Organizations  
Technical Branch 3

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Code	OP:E:EO:T:3	OP:E:EO:T:3					
Summary	[REDACTED]	[REDACTED]					
Date	9-22-99	10/4/99					