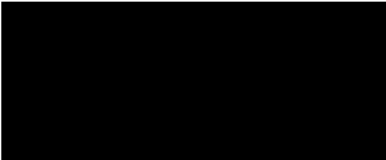


Internal Revenue Service

District
Director

Department of the Treasury

230 South Dearborn Street
Chicago, Illinois 60604



Employer Identification Number:

Person to Contact:

Telephone Number:

Refer Reply to:



CERTIFIED

P 219 343 321

Date: JUL 26 1983

Dear applicant:

We have considered your application for recognition of exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986.

The information submitted discloses that you were incorporated on [REDACTED] under the nonprofit corporation laws of the State of [REDACTED].

According to your Articles of Incorporation, the purpose of your organization is to help educate young people from low income families.

Your activities according to your application are to raise funds for individuals to attend college. You are a membership organization. The initial fee for membership is \$[REDACTED], thereafter, \$[REDACTED] per year. In addition, fund raisers are conducted by members of the organization. You stated profits from the fund raisers will be used to provide scholarships to low income families.

Scholarship qualifications are: "A student who is ready for college and the parent, grandparent or guardian's income is not enough to finance a student's college education..."

Additionally: "If the families income is \$40,000 or less per year and there is four minor children in the family or up to three in the family with less than \$30,000 per year, these children are eligible for the Low Income Families Education Scholarship. If there is someone who is struggling with little or no finance, and we are able to see the individual has potential, we are going to help this person with a financial gift, encouragement and whatever possible way we can".



Through the development question sent to you, it was learned that the recipients of the scholarships must be members of the organization or be recommended by members. Relatives of the selection committee are also eligible to receive the scholarships. In fact, you have stated that the scholarship fund was established by relatives for their children and grandchildren.

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

Section 1.501(c)(3)-1 of the Income Tax Regulations relates to the definition of the organization and operation of organizations described in Section 501(c)(3). It is quoted, in part, as follows:

"(a) Organizational and operational tests. (1) In order to be exempt as an organization described in Section 501(c)(3), 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. (2) The term "exempt purpose or purposes", as used in this section, means any purpose or purposes specified in Section 501(c)(3)...."

"(c) Operational test. (1) Primary activities. 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). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. (2) Distribution of earnings. An organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals..."

Section 1.501(c)(3)-1(a) of the Income Tax Regulations provides that in order to be exempt as an organization described in Section 501(c)(3), the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. If an organization fails to meet either organizational or the operational test it is not exempt.

Section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized and operated exclusively for exempt purposes unless it serves a public rather than a private interest. Thus, it is necessary for an organization seeking exemption under Section 501(c)(3) to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

[REDACTED]

In Revenue Ruling 56-403, 1956-2 C.B. 307, an organization awarding scholarships limited to a particular group would not preclude exemption as an educational organization inasmuch as there is no specific designation of persons eligible and the recipients are not related by blood or marriage to any of the officers of the organization.

Revenue Ruling 85-175, 1985-2 C.B. 276, states, in part, that a scholarship program that gives preference to family members and relatives of the officers and/or selection committee of the organization is not consistent with exemption under Section 501(c)(3) of the Code because it serves a private rather than a public purpose. It goes on to state that "a preference accorded to family members and relatives is not a criterion, like financial need and academic achievement, that is related to the purpose of an educational grant." within the meaning of Section 501(c)(3) of the Code.

The basic premise of a charitable entity is that it must be set up for the benefit of an indefinite class of individuals and not for specific persons. You have stated in correspondence to this office that it was the intent of the founders of this organization to have sufficient funds to grant scholarships to the children and grandchildren of the founders and members. As such, it is evident that your organization did in fact have certain designated individuals in mind to benefit when you set up this organization and not an indefinite charitable class of individuals. A class of potential scholarship recipients comprising of family members or relatives of the grantors does not constitute a charitable class. In addition, to the extent, your organization relieves guardians of their responsibility of providing an education for their children; you are serving private interest rather than public charitable and educational interest. Based on the information you have submitted we have concluded that you are not operated exclusively for charitable and educational purposes.

Accordingly, we have concluded that you are not entitled to recognition of exemption from Federal Income Tax under Section 501(c)(3) of the Code, since you are not organized and operated exclusively for charitable, religious, or other exempt purposes within the meaning of Section 501(c)(3).

You are required to file Federal Income Tax Returns.

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 these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

[REDACTED]

If you do not protest this 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 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".

Please keep this determination letter in your permanent records.

If you agree with this determination, please sign and return the enclosed Form 6018.

If we do not hear from you within 30 days from the date of this letter, this determination will become final. In accordance with Code Section 6104(c), we will notify the appropriate State officials of this action.

Sincerely yours,

[REDACTED]
DISTRICT DIRECTOR

Enclosures:
Publication 892
Form 6018