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[REDACTED]
[REDACTED]

JUL 17 1989

CERTIFIED MAIL

Dear Applicant:

We have considered your application for exemption under section 501(c)(3) of the Internal Revenue Code.

Your submitted information indicates that you were incorporated on [REDACTED] under the laws of the State of [REDACTED]. Your purpose for formation, as stated within your Articles of Incorporation, are to raise funds for the medical care of [REDACTED] and to participate in the charitable work of the [REDACTED]. The three members of your governing body are closely related to [REDACTED]. The relationship is one of mother, aunt, and uncle. Your proposed budgets for years [REDACTED] and [REDACTED] indicate that you will make contributions amounting to \$[REDACTED] in each of these years. Of these two contributions, an amount of \$[REDACTED] is to be paid in each year for the medical expenses of [REDACTED] not covered by insurance.

Section 501(c)(3) of the Code provides for the exemption of corporations, and any community chest, fund, or foundation organized and operated exclusively for charitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(a)-1(c) of the Income Tax Regulations defines the words "private shareholder or individual" as referring to persons having a personal and private interest in the activities of an organization.

Section 1.501(c)(3)-1(d)(1)(ii) of the Regulations provides that an organization is not organized or operated exclusively for Code section 501(c)(3) purposes unless it serves a public rather than a private interest. To meet this requirement, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals or the family of the organization's creator.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	[REDACTED]	[REDACTED]	[REDACTED]				
Surname	[REDACTED]	[REDACTED]	[REDACTED]				
Date	3/15/89	4/3/89	7/13/89				


[REDACTED]

A charitable organization or trust must therefore be set up for the benefit of an indefinite class of individuals, not for a specific person. A trust or corporation organized and operated for the benefit of specific individuals is not charitable regardless of any established financial need.

In Carrie A. Maxwell Trust, Pasadena Methodist Foundation, Inc. v. Commissioner, 2 TCM 905, (1943), it was held that a trust set up for the benefit of an aged clergyman and his wife was not an exempt organization. Despite the fact that the elderly gentleman was in financial need, this was a private trust, not a charitable trust, because it was created and operated for the benefit of specific persons.

Also, in Wendy L. Parker Rehabilitation Foundation, Inc. v. Commissioner, 52 TCM, 1986-348, a not-for-profit corporation organized for the purpose of providing care and treatment for coma victims in stages of recovery was denied an exemption from taxation. The adverse ruling of the Internal Revenue Service was upheld by the Tax Court because a child of the founder and chief operating officer of the foundation was a substantial beneficiary of the services provided by the organization. This constituted inurement for the benefit of a private individual, which is prohibited under the qualifications for exemption. Although the taxpayer argued that the government based its private inurement test upon projected expenditures, the Court upheld this method, stating that approval or denial of tax-exempt status may be based on projected as well as actual operational expenditures.

Our review of your application indicates that you are organized and operated for the purpose of benefiting a specific individual who is closely related to the three members of your governing body. Your Articles of Incorporation state that your purpose for formation is to raise funds for the medical care of [REDACTED], and your proposed budgets reveal that you intend to pay \$ [REDACTED] in [REDACTED] and in [REDACTED] for the medical expenses of [REDACTED] not covered by insurance. Because you are organized and operated for the purpose of benefiting a specific individual, you therefore do not qualify as an organization that is exempt from Federal income tax under Code section 501(c)(3). Contributions to you are not deductible under section 170 of the Code.



In accordance with this determination, you are a taxable entity and must file Federal income tax returns on Form 1120. If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference 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 be contacted to arrange a date for a conference. The conference may be held at the Regional Office or, if you request, at any mutually convenient District Office. If we do not hear from you within 30 days from the date of this letter, this determination will become final and a copy of this letter will be sent to the appropriate state officials in accordance with section 6104(c) of the Code.

If you do not protest this proposed determination under Code section 501(c)(3) 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 states, 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,



District Director

Enclosure: Publication 892

cc: State Attorney General 