

Internal Revenue Service

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Department of the Treasury

Date 4-21-94

Washington, DC 20224

Surname

Person to Contact:

Telephone Number:

Refer Reply to:

Date:

FEB 24 1994

Employer Identification Number:

Key District Office:

Dear Applicant:

We have considered your application for recognition of exemption as an organization described in section 501(c)(3) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

Your purposes, as stated in your articles of incorporation, are to provide adult leadership, educational programs and programs of athletic events and their participation. You will encourage participation and recognize achievement in the game of tenpins by the youth of America while preserving their eligibility to participate in school and other athletic and related programs.

You have established a program designed to reward participation in bowling events and to help youth bowlers to build a scholarship account to supplement the cost of higher education. Participating youth bowlers earn scholarships based on the average number of youth bowlers that compete at selected tournaments.

Your scholarship program requires a fee for the various expenses such as a scholarship fee, a trophy fee, an expense fee, a one time membership fee and a bowling fee. You will hold four scholarship tournaments. Members must have bowled in a minimum of one tournament prior to a scholarship tournament to be eligible for participation in a scholarship tournament. The amount of scholarship benefit depends on the average number of bowlers per tournament prior to and including a scholarship tournament. As long as the youth remains registered in the program, he or she will be awarded scholarship funds upon completion of high school and proof of being enrolled in an institution of higher learning.

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated exclusively for educational purposes, no part of the net earnings of which inure to the benefit of any private individuals or shareholders.

Section 1.501(c)(3)-1(a) of the regulations states, in part,

that if an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(b) of the regulations provides that an organization is organized exclusively for one or more exempt purposes only if its articles of organization (a) limit the purposes of such organization to one or more exempt purposes; and (b) do not expressly empower the organization to engage in activities which in themselves are not in furtherance of one or more exempt purposes.

Section 1.501(c)(3)-1(b)(4) of the regulations states, in part, that an organization is not organized exclusively for exempt purposes unless its activities are dedicated to an exempt purpose.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that 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) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more of the purposes specified in section 501(c)(3) of the Code unless it serves a public rather than a private interest.

Rev. Rul. 66-103, 1966-1 C.B. 135, holds that a nonprofit organization which provides awards and grants, including scholarships and fellowship grants, to needy individuals to enable them to continue their work in the creative arts, as well as to continue their education and studies, with no monetary benefit to the donor organization, is entitled to exemption from Federal income tax under section 501(c)(3) of the Code.

Rev. Rul. 69-257, 1969-1 C.B. 151, states that a nonprofit organization awarding scholarships based on scholastic ability without regard to financial need, may qualify for exemption under section 501(c)(3) of the Code.

To satisfy the operational test, your resources must be devoted to programs that qualify as exclusively charitable within the meaning of section 501(c)(3) of the Code. Your purpose and sole activity is to solicit contributions and to award scholarship prizes to participants in your Scholarship Program. Scholarships will be awarded only to participants in this program. Scholarships will be based upon the average number of bowlers per tournament in selected tournaments. Participants must maintain their eligibility and are required to compete in bowling tournaments in order to receive funds. It is our view that your grants constitute payments

for entering and participating in the bowling tournaments and thus are payments for services rather than scholarships in that there are conditions attached to the grants requiring a substantial quid pro quo from the recipients. In this regard, Revenue Rulings 66-103 and 69-257, supra, provide exemption under section 501(c)(3) of the Code to organizations granting scholarships to individuals on the basis of financial need and merit respectively. The pro-rata distributions provided by your scholarship programs do not qualify under either of these rationales, therefore, these Revenue Rulings do not apply.

Additionally, the record reflects that the scholarship program was established to attract and retain youth bowlers. As such, the program is not described in section 501(c)(3) of the Code because it serves to promote the private interests of the owner's of the bowling centers. Therefore, you are not operated exclusively for any of the permissible purposes enumerated in section 501(c)(3) and cannot be classified as an exempt organization described therein.

Based on the foregoing, we hold that you do not qualify for exemption from federal income tax as an organization described in section 501(c)(3) of the Code. Therefore, contributions to you are not deductible under section 170 of the Code. You are required to file federal income tax returns on Form 1120.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days from today and must be signed by one of your principal officers.

You also have the right to a conference in this office after your protest statement is submitted. If you desire a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If you do not protest this proposed 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 proceedings 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 copies will be forwarded to the District Director,

Cincinnati, Ohio, which is your key district for exempt organization matters. Thereafter, any questions about your federal income tax status should be addressed to your District Director. The appropriate State Officials will be notified of this action in accordance with section 6104(c) of the Code.

When sending a protest or other correspondence with respect to this case, you will expedite its receipt by using the following address on the envelope:

Internal Revenue Service
1111 Constitution Avenue
Washington, D.C. 20224
Attn: [REDACTED]

Sincerely yours,

[REDACTED]
[REDACTED]
Chief, Exempt Organizations
Rulings Branch 4

cc: DD, Cincinnati
Attn: EO Group

cc: state officials

[REDACTED]
[REDACTED]
1-25-94

[REDACTED]
[REDACTED]
4-21-94

2-21-94