

NO PROTEST RECEIVED
Release copies to [redacted]
Date 12-2-80
Surname [redacted]

RE: [redacted]

10 SEP 1980

Dear Applicant:

We have considered your application for recognition of exemption from federal income taxation under section 501(c)(3) of the Internal Revenue Code of 1954.

You were incorporated under the laws of the State of [redacted] on [redacted].

Your purpose is the provision of a variety of consulting services to governmental and private educational, health and selected other human services agencies which may or may not be exempt under section 501(c)(3) of the Code.

You have stated that your activities will include the following:

1. Preparation of local, state or federal educational and/or health services grants, contracts or state plans.
2. Evaluation or auditing of local, state or federal education or human services programs.
3. Planning and presenting inservice training or workshops on:
 - a) programs to assist in the selection and training of educational or human services board, commission, council or committee members;
 - b) programs to develop, monitor or evaluate programs affecting parents, teachers, nurses, administrators, children and community leaders;
 - c) programs to develop effective supervisory, consultative and counseling avenues in an organization's structure;

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[REDACTED]

- d) programs to establish, develop and monitor deinstitutionalization of developmentally disabled persons into community programs and facilities;
- e) programs to manage and interpret data for health, educational and other human services organizations;
- f) programs to develop effective management training.

4. Development of instructional systems and materials.

5. The conducting of tests and other measures of performance.

6. Provision of data and other recorded information to professionals, students, governmental bodies and the public at large.

Your expected sources of financial support include payments from agencies to which services are rendered and contributions from other sources. Your rates average from \$[REDACTED] daily to \$[REDACTED] daily plus expenses and overhead. Because you are a newly formed organization you use the federal maximum rate for organizations that have not determined a rate, of 12%. For other proposals, the rate of [REDACTED] is used, depending on the requirements of the contract.

Effective with the start of the new year, [REDACTED], your daily rate will range from \$[REDACTED] - \$[REDACTED] depending on the staff person performing the work. These calculations are based on a salary & benefits figure determined from what is required by the staff person to meet today's economy. You have indicated that these figures are also consistent with related non-profit consultant services.

Section 501(c)(3) of the Code provides for recognition of exemption from federal income taxation for organizations organized and operated exclusively for charitable or educational purposes.

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. An organization that fails to meet either the organizational or operational test is not exempt.

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As indicated in Rev. Rul. 72-369, 1972-2 C.B. 245, an organization is not exempt merely because its operations are not conducted for the purpose of producing a profit. Further, providing managerial and consulting services on a regular basis for a fee in trade or business ordinarily carried on for profit. The fact that the services in that case were provided at cost and solely for exempt organizations was not sufficient to characterize the activity as charitable within the meaning of section 501(c)(3) of the Code. See also *H.S.W. Group, Inc. v. Commissioner*, 70T.C. 352 (1978).

You have not shown that you will be operated exclusively for exempt purposes within the meaning of section 501(c)(3) of the Code.

You will provide consulting services on a regular basis for a fee in a manner similar to that of the organizations described in Rev. Rul. 72-369 and *H.S.W. Group, Inc.* Providing consulting services in the manner described by you is indistinguishable from a trade or business ordinarily carried on for profit. Accordingly we have concluded that you do not qualify for recognition of exemption under section 501(c)(3) of the Code.

You have the right to protest this ruling if you believe that 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 in duplicate within 21 days from the date of this letter and must be signed by one of your principal officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement.

When sending additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: [REDACTED]. These symbols do not refer to your case but rather to its location.

If we do not hear from you within 21 days, this ruling will become final and copies will be forwarded to your key District Director. In that event, we will notify the appropriate State officials, as required by section 6104(c) of the Code, that based upon the information we have, we are unable to recognize you as an organization of the type described in Code section 501(c)(3). Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to the District Director.

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[REDACTED]

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 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."

Sincerely yours,

[REDACTED]

[REDACTED]

Chief, Filings Section 1
Exempt Organizations
Technical Branch

cc: [REDACTED]

cc: [REDACTED]

[REDACTED]

INTERNAL REVENUE

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