

An organization whose activities are educational, religious, or charitable, in the broad sense of those words, and which, as a secondary or incidental activity, also maintains an educational institution in the nature of a school, or a church or association of churches, or a hospital, does not qualify under the classes of organizations set forth under section 170(b)(1)(A) of the Internal Revenue Code of 1954, and contributions thereto will qualify as a deduction only to the extent of the general limitation of 20 percent of adjusted gross income provided by section 170(b)(1)(B) of the Code.

Rev. Rul. 55-219, C.B. 1955-1, 28, revoked.

Advice has been requested whether contributions to an organization whose activities are educational, religious, or charitable, in the broad sense of those words, and which, as a secondary or incidental activity, also maintains an educational institution in the nature of a school, or a church, or a hospital, will qualify for the deduction of ten percent of adjusted gross income provided by the special rule under section 170(b)(1)(A) of the Internal Revenue Code of 1954, in addition to the general limitation of 20 percent of adjusted gross income provided under section 170(b)(1)(B) of the Code.

In one instance, an organization has been incorporated for the primary purpose of engaging in research into the cause, origin, prevention, and cure of certain diseases. It also provides advanced instruction and training of personnel seeking to become qualified to engage in effective research operations in this field. Two general groups of students are maintained, namely, research specialists of professional rank and graduate students seeking the degree of Doctor of Philosophy in science. Research specialists attend lectures and seminars which provide the opportunity for acquiring knowledge and techniques relating to the research and the experimental treatment of certain diseases. The graduate student program is carried out under an agreement with a medical college whereby the facilities of the research organization are made available to certain graduate medical students of the college. Formal instruction taken by such students, who may or may not be employees of the research organization, is deemed to be work done 'in residence' at the medical college. The income of the organization is derived from grants by the Federal government, private foundations, contracts with the Federal government, contributions, bequests, etc. The organization has been held to be exempt from Federal income taxation under the provisions of section 501(c)(3) of the 1954 Code (section 101(6) of the 1939 Code).

In another instance, an organization is incorporated for the purpose of providing religious, educational, and industrial welfare for the poor and neglected. In this respect, a church sanctuary is maintained, where services are conducted three times

a week. Vocational instruction is provided for the mentally retarded and children with a low intelligence quotient. A feature of the organization is the medical services for handicapped persons, provided through a rehabilitation center where patients, referred by medical doctors, are treated according to the course of treatment prescribed by the doctor. The organization has been held to be exempt from Federal income taxation under the provisions of section 501(c)(3) of the Code (section 101(6) of the 1939 Code).

Section 170(a)(1) of the Code provides that there shall be allowed as a deduction any charitable contribution payment of which is made within the taxable year.

Section 170(b)(1)(B) of the Code provides the general limitation, for deductions for charitable contributions by individuals, of 20 percent of adjusted gross income computed without regard to any net operating loss carryback to the taxable year under section 172 of the Code.

Under section 170(b)(1)(A) of the Code, individuals are allowed an additional deduction under a special rule whereby any charitable contribution to a church, or a convention or association of churches, an educational organization referred to in section 503(b)(2) of the Code, or a hospital referred to in section 503(b)(5) of the Code, shall be allowed to the extent that the aggregate of such additional contributions does not exceed ten percent of the taxpayer's adjusted gross income computed without regard to any net operating loss carryback to the taxable year under section 172 of the Code.

Section 503(b)(2) and (5), referred to in section 170(b)(1)(A) of the Code, reads as follows:

(2) an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on;

* * *

(5) an organization the principal purposes or functions of which are the providing of medical or hospital care or medical education or medical research or agricultural research.

In discussing section 170(b)(1)(A) of the 1954 Code, the Committee on Finance, United States Senate, said 'this extra 10-per-cent deduction for charitable contributions is to be available with respect to any contributions to the specified types of organizations, even though contributions to other organizations account for the full amount allowable under the regular 20-percent limitation. This amendment is designed to aid these institutions

in obtaining the additional funds they need, in view of their rising costs and the relatively low rates of return they are receiving on endowment funds.' Report of the Committee on Finance, United States Senate, Report No. 1622, page 29. A similar statement is made by the Committee on Ways and Means, House of Representatives, House Report No. 1337, page 25.

An organization, which has educational activities in the broad sense of the word and which, incidental to its primary functions, regularly maintains a faculty and a curriculum and regularly has students in attendance at the place where its educational activities are conducted, is not an 'educational organization' referred to in section 170(b)(1)(A)(ii) of the Code.

Only those 'educational organizations' organized primarily for, and engaged in, the presentation of formal education in the instructive sense constitute 'educational organizations' within the meaning of section 170(b)(1)(A)(ii) of the Code.

Similarly, an organization, whose activities include the conducting of religious services and/or the ministrations to the sick or mentally retarded, may have characteristics of a church and a hospital, and an educational institution, but where the principal purpose or function of such an organization is not that of a church or association of churches, or an educational organization, or a hospital, it will not qualify under any of the classes of organizations set forth in section 170(b)(1)(A)(i), (ii) or (iii) of the Code.

Accordingly, it is held that contributions to organizations whose activities are educational, religious, or charitable, in the broad sense of those words, and which, as a secondary or incidental activity, also maintain an educational institution in the nature of a school, or a church or association of churches, or a hospital, will qualify as a deduction only to the extent of the general limitation of 20 percent of adjusted gross income as provided by section 170(b)(1)(B) of the Code.

Revenue Ruling 55-219, C.B. 1955-1, 28, which holds that a museum, which is a corporation maintaining a regular faculty and curriculum with a regularly enrolled body of pupils, is an educational organization within the meaning of section 170(b)(1)(A)(ii) of the Code, and that contributions thereto by individuals are deductible in computing taxable income not only to the extent of the general limitation of 20 percent of adjusted gross income under section 170(b)(1)(B) of the Code, but also to the extent of the special limitation of ten percent of adjusted gross income under section 170(b)(1)(A) of the Code, is hereby revoked. However, under the authority of section 7805(b) of the Code, this ruling shall not be applied retroactively with respect to any contributions made by an individual prior to June 18, 1956, the date of this Bulletin.