

A nonprofit membership corporation was organized primarily to test for public safety, and to establish safety standards for products used aboard pleasure boats. It cooperates with and assists the Commandant of the United States Coast Guard in matters relating to pleasure boat safety. Its facilities are available for safety testing to manufacturers of pleasure boat products. Testing charges do not exceed amounts necessary to conduct its operations. Income is realized from membership dues and testing fees, and is expended for salaries, testing, and operating expenses. It does not engage in scientific research, carrying on propaganda, or attempting to influence legislation. Its income does not inure to the benefit of private individuals.

Held; the organization is exempt from Federal income tax as one testing for public safety as described in section 501(c)(3) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization engaged in testing for public safety in the field of pleasure boating, as described

The instant organization was incorporated from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was incorporated as a nonprofit membership corporation, under State law, for the purpose of testing for public safety in the field of pleasure boating. Its charter provides that it shall accept for inspection, testing, and safety evaluation, products intended for use on, in or in connection with, small boats, primarily pleasure boats, including hulls and entire boats, and shall report and circulate the results of such inspection, tests, and evaluations to the public and other interested parties by attaching labels or certificates to such products, or by other appropriate means. The charter further states that the corporation shall cooperate with and assist the Commandant of the U.S. Coast Guard in matters relating to pleasure boat safety. No distribution of its property, assets or income is to be made to its members by way of dividends, in liquidation, or otherwise. All of its property is dedicated to the accomplishment of its objects and purposes. In the event of dissolution the charter provides for the transfer of its assets to another such organization having the same purpose. Such organization is to be selected at a corporate meeting held for that purpose in accordance with State law. The organization's bylaws provide that fees to be charged for its services shall not exceed amounts reasonably necessary to carry on its purposes and functions.

The membership of the organization consists primarily of an association of engine and boat manufacturers, and a group of marine underwriting companies. These members are sponsors of the

organization, and are required by its bylaws to provide funds for its annual budget as determined by the board of directors. The organization's services are, however, available to the general public.

The bylaws list five membership classes including one which consists of the Commandant of the U.S. Coast Guard, or such person as he may designate. This membership class pays no dues or assessments.

The technical activities of the organization are supervised by an operations committee composed largely of licensed engineers experienced in the marine field. The activities include testing of various items, including galley stoves, metallic fuel tanks, flame arresters, battery charging devices, navigation lights, fuel tanks, flame arresters, and other products used aboard pleasure craft. The organization also distributes safety literature free of charge to interested noncommercial boating organizations, subject to a fixed maximum limit to any one organization. Distributions also are made to commercial organizations for a fee covering the exact cost of printing and forwarding. The organization does not engage in scientific research, carry on propaganda, attempt to influence legislation, nor intervene in political campaigns.

The organization's facilities are available for safety testing to all manufacturers of products and accessories used on pleasure craft, who wish to have their products evaluated under the organization's standards. These standards are based upon engineering principles or current nationally recognized marine standards such as are found in the U.S. Coast Guard regulations. The basis for submission of a product to the organization for testing is as follows:

- (a) The submission is strictly voluntary on the part of the manufacturer.
- (b) The product is or will be offered for use in the pleasure boat field.
- (c) The product involves a peril that is either recognized by current safety standards or warrants such recognition.

Testing costs to manufacturers who make use of the organization's services are based upon actual work expended, and include materials, staff time, travel, and any other element, including preparation of the report, that enters into the cost of performing the work necessary for a complete product investigation. Charges also include the cost of periodic reexamination of products to make certain that the originally tested qualities are maintained. Established standards of products previously tested by the organization are available to manufacturers on request, without charge. These standards are

regularly published by the organization as a means of notifying the public of materials which have met safety standards for a particular use.

The organization's label of approval is placed on all products which meet its minimum requirements for safety.

Although the organization expects to become self-sustaining in the future through the allocation of costs of operation to individual manufacturers who make use of its facilities and services, it presently derives its income mainly from its sponsoring members. Other income is derived from testing, sale of publications, and miscellaneous sources. Its funds are expended for salaries, travel, rent and utilities, miscellaneous office expenses, and laboratory and testing expenses.

Section 501(c) of the Code describes certain organizations which are exempt from Federal income tax under section 501(a) of the Code and reads, in part, as follows:

(3) Corporations, and any community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation, and which does not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office.

Section 1.501(c)(3)-1(d)(4) of the Income Tax Regulations defines the term 'testing for public safety,' as used in section 501(c)(3) of the Code, to include the testing of consumer products, such as electrical products, to determine whether they are safe for use by the general public.

Senate Report No. 1622, Eighty-third Congress, Second Session, 310, relating to H.R. 8300, A Bill To Revise The Internal Revenue Laws Of The United States, discusses the inclusion in section 501(c)(3) of the Code of organizations testing for public safety and states, in part, as follows:

A further amendment in your committee's bill is the addition in section 501(c)(3) of organizations devoted to testing for public safety. This language is intended to govern organizations which test consumer products, such as electrical products, to determine their acceptability for use by the general public. The restriction of paragraph (3) will apply, namely, that no part of the benefit may inure to a private individual or shareholder and propaganda or influencing legislation may not be a major activity.

Testing boating equipment and establishing safety standards for products used aboard pleasure craft by the boating public in the manner and under the circumstances described herein constitute testing for public safety within the intendment of section 501(c)(3) of the Code. Accordingly, the organization in question is held exempt from Federal income tax as one organized and operated for testing for public safety as described in section 501(c)(3) of the Code.

Since the organization is not organized for any of the purposes specified in section 170(c) of the Code, contributions to it by individuals and corporate taxpayers are not deductible from gross income under that section of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(3) of the Code, file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.