

Nonprofit housing organizations created to aid low and moderate income families by lessening neighborhood tensions, eliminating prejudice and discrimination, and combating community deterioration may qualify for exemption under section 501(c)(3) of the Code.

Advice has been requested whether nonprofit organizations created to provide housing for low or moderate income families under Federal and State programs qualify for exemption from Federal income tax as charitable organizations described in section 501(c)(3) of the Internal Revenue Code of 1954.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations defines the term 'charitable' as including the relief of the poor and distressed or of the underprivileged, and the promotion of social welfare by organizations designed to lessen neighborhood tensions, to eliminate prejudice and discrimination, or to combat community deterioration.

It is held generally that where an organization is formed for charitable purposes and accomplishes its charitable purposes through a program of providing housing for low and, in certain circumstances, moderate income families, it is entitled to exemption under section 501(c)(3) of the Code. The fact that an organization receives public funds under State or Federal programs for housing is not determinative; qualification is based on whether or not the organization is charitable within the meaning of section 501(c)(3).

The following situations are illustrative of the foregoing principle.

#### SITUATION 1.-AN ORGANIZATION FORMED TO AID LOW INCOME FAMILIES

An organization was formed to develop a program for new home construction and the renovation of existing homes for sale to low income families on long-term, low-payment plans. It purchases homes for renovation and lots for building new homes throughout the city in which it is located. It builds new homes for sale to low income families who qualify for loans under a Federal housing program and who cannot obtain financing through conventional channels. It also aids financially those families eligible for the loans who do not have the necessary down payment. Rehabilitated homes are made available to families who cannot qualify for any type of mortgage loan. The cost of these homes is recovered, if possible, through very small periodic payments. The organization derives its operating funds through Federal loans and contributions from the general public. Where possible,

renovations are made with volunteer help.

By providing homes for low income families who otherwise could not afford them, the organization is relieving the poor and distressed. Thus, it is held that this organization is organized and operated exclusively for charitable purposes, and it is exempt from Federal income tax under section 501(c)(3) of the Code. The determination of what constitutes low income is a factual question based on all of the surrounding circumstances.

#### SITUATION 2.-AN ORGANIZATION FORMED TO ELIMINATE PREJUDICE AND DISCRIMINATION

An organization was formed to ameliorate the housing needs of minority groups by building housing units for sale to persons of low and moderate income on an open occupancy basis. It constructs new housing that is available to members of minority groups with low and moderate income who are unable to obtain adequate housing because of local discrimination. These housing units are so located as to help reduce racial and ethnic imbalances in the community. They are sold at or below cost to low or moderate income families or rented, with options to purchase, to families who cannot presently afford to purchase. Preference is to be given to families previously located in ghetto areas. The organization also informs the public regarding integrated housing as a means of minimizing potential misunderstanding and stabilizing integrated neighborhoods. It is financed by contributions from the general public and by funds obtained under Federal and State housing programs.

As the organization's activities are designed to eliminate prejudice and discrimination and to lessen neighborhood tensions, it is engaged in charitable activities within the meaning of section 501(c)(3) of the Code. See Rev. Rul. 68-655, C.B. 1968-2, 213. Accordingly, it is held that this organization is exempt from Federal income tax under section 501(c)(3) of the Code.

#### SITUATION 3.-AN ORGANIZATION FORMED TO COMBAT COMMUNITY DETERIORATION

An organization was formed to formulate plans for the renewal and rehabilitation of a particular area in a city as a residential community. Studies of the area showed that the median income level in the area is lower than in other sections of the city and the housing located in the area is generally old and badly deteriorated.

The organization's membership is composed of the residents, businesses, and community organizations in the area. The organization cooperates with the local redevelopment authority in providing residents of the area with decent, safe, and sanitary housing without relocating them outside the area. The organization has developed an overall plan for the rehabilitation of the area; it sponsors a renewal project in which the residents

themselves take the initiative; and it arranges monthly meetings to involve residents in the planning for the renewal of the area.

As part of the renewal project, it purchased an apartment house that it plans to rehabilitate and rent at cost to low and moderate income families with preference given to residents of the area. The organization is supported by Federal funds, membership fees, and contributions.

Since the organization's purposes and activities combat community deterioration by assisting in the rehabilitation of an old and run-down residential area, they are charitable within the meaning of section 501(c)(3) of the Code. Thus, it is held that the organization is exempt from Federal income tax under section 501(c)(3) of the Code.

#### SITUATION 4.-AN ORGANIZATION FORMED TO PROVIDE MODERATE INCOME FAMILIES WITH HOUSING IN A PARTICULAR COMMUNITY

An organization was formed to build new housing facilities for the purpose of helping families to secure decent, safe, and sanitary housing at prices they can afford. Its Membership is composed of community organizations that are concerned with the growing housing shortage in the community. A study of the area shows that because of the high cost of land, increased interest rates, and the growing population, there is a shortage of housing for moderate income families in the community. The organization plans to erect housing that it to be rented at cost to moderate income families. The organization is financed by mortgage money obtained under Federal and State programs and by contributions from the general public.

Since the organization's program is not designed to provide relief to the poor or to carry out any other charitable purpose within the meaning of the regulations applicable to section 501(c)(3) of the Code, it is held that it is not entitled to exemption from Federal income tax under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling (other than Situation 4), it must file an application on Form 1023, Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. The application should be filed with the District Director of Internal Revenue for the 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.