

An organization formed to provide substantial free legal services to low income residents of economically depressed communities through the subsidization of recent law graduates who have been admitted to the bar is exempt under section 501(c)(3) of the Code.

Advice has been requested whether an organization that otherwise qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 is operated for charitable purposes where its only activities are those described below.

The organization was formed to provide legal services for economically depressed communities. Its sole activity is the operation of a legal program for the benefit of low income residents of these communities.

The organization selects outstanding law graduates who have been admitted to the bar to participate as interns in the program. In the first year of the program each intern is given intensive on-the-job training in human rights law and business law relevant to economically depressed communities. He works under the supervision of experienced attorneys and is paid a salary by the organization. After the first year the intern is set up in a law practice in a community that has been identified as an economically depressed community by various state and Federal agencies and which has a shortage of available legal services. The organization will provide him with a yearly subsidy during his first three years in order to enable him to provide legal services to indigents while establishing his practice. The intern is required to provide a substantial amount of free legal services to the low income residents of the community. The intern must file weekly reports to the organization outlining the cases he worked on, the type of work he performed, the fees charged, if any, and the number of hours he spent on each case. After three years the organization expects an intern to have developed a paying practice sufficient to enable him to continue to provide free legal services to needy members of the community without the organization's subsidy.

The organization's receipts are from contributions and its disbursements are for salaries and subsidies for interns, and miscellaneous administrative expenses.

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 promotion of social welfare by organizations designed to relieve the poor and distressed or the underprivileged.

By inducing lawyers to establish practices in economically depressed communities and to provide substantial free legal services to low income residents of such communities, the organization is relieving the poor and distressed. See Rev. Rul. 69-161, C.B. 1969-1, 149.

The fact that the recipients of the organization's financial assistance, the legal interns, are not themselves members of a charitable class does not mean the organization is not operating primarily for charitable purposes. The interns are merely the instruments by which the charitable purposes are accomplished. Therefore, the fact that they derive personal gain from the arrangement does not detract from the organization's charitable purposes.

Accordingly, it is held that the organization's activities are charitable and, since it otherwise qualifies for exemption the organization is exempt under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, 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.