

Legal services. A nonprofit organization formed and operated to provide legal services to indigent persons at a fee based upon the indigent clients' abilities to pay qualifies for exemption under section 501(c)(3) of the Code; Rev. Rul. 69-161 amplified.

Advice has been requested whether the nonprofit organization described below, which otherwise qualifies for exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954, is operated exclusively for charitable purposes.

The organization was formed, and is operated, for the sole purpose of providing legal services to indigent persons who are otherwise financially incapable of obtaining such services. It is supported by contributions from the general public and by fees paid by its indigent clients. For each hour of legal assistance received, an indigent client is expected to pay a nominal hourly fee determined by reference to the client's own hourly income. The fees charged by the organization are not based upon the type of service rendered, but are based upon the indigents' abilities to pay.

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 provides that the term 'charitable' is used in section 501(c)(3) of the Code in its generally accepted legal sense, and includes relief of the poor and distressed.

Rev. Rul 69-161, 1969-1 C.B. 149, holds that an organization providing free legal services to persons otherwise financially incapable of obtaining such services is exempt from federal income tax under section 501(c)(3) of the Code as a charitable organization for the relief of the poor and distressed.

Although the organization above charges for its legal services, its fees are based upon the indigents' limited abilities to pay rather than the type of service rendered. Thus, the organization provides economic relief to its poor and distressed clients although it charges the fees described above. The fees charged do not negate or significantly detract from the substantial economic relief provided to the poor and distressed by the organization.

Accordingly, the organization is operated exclusively for charitable purposes and, thus, qualifies for 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, it must file an application on Form 1023, Application for Recognition of Exemption, in order to be

recognized by the Service as exempt under section 501(c)(3) of the Code. See sections 1.501(a)-1 and 1.508-1(a) of the regulations.

In accordance with the instructions to Form 1023, the application should be filed with the District Director of Internal Revenue for the key district indicated therein.

Rev. Rul. 69-161, 1969-1 C.B. 149, is amplified.