



OFFICE OF
CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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The Honorable Trent Lott
United States Senate
Washington, D.C. 20510

Dear Senator Lott:

This letter responds to your inquiry dated May 19, 2000, in which you ask whether Internal Revenue Service regulations allow an organization described in section 501(c)(3) of the Internal Revenue Code (the Code) to give grant funds to an organization described in section 501(c)(6) of the Code.

As long as a section 501(c)(3) organization's disbursement of funds furthers the purposes for which exemption was granted, the disbursement would not be prohibited by income tax regulations governing charitable organizations.

The following authorities apply to this situation:

- Organizations recognized as exempt from federal income tax under section 501(a) of the Code because they are described in section 501(c)(3) of the Code must operate exclusively for one or more exempt purposes. [Treas. Reg. §1.501(c)(3)-1(a)].
- An organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities that accomplish one or more of the exempt purposes enumerated in section 501(c)(3). An organization's activities will be considered permissible under section 501(c)(3) if they meet the following conditions:
 - (1) the purpose of the organization is charitable;
 - (2) the activities are not illegal, contrary to a clearly defined and established policy, or in conflict with express statutory restrictions; and
 - (3) the activities further the organization's exempt purpose and are reasonably related to the accomplishment of that purpose. (Rev. Rul. 80-278, 1980-2 C.B. 175).

While we are unable to comment on the specific taxpayer identified by your constituent I believe the information provided reaches the fundamental question raised and I hope this information is helpful to you. If you have additional questions or need further information, please contact me at (202) 622-6000 or Robin Ehrenberg of my staff at (202) 622-6080. We would certainly be happy to respond directly to your constituent as well.

Sincerely,

Nancy J. Marks
Acting Division Counsel/Associate
Chief Counsel (Tax Exempt &
Government Entities)