



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

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The Honorable Tony Cárdenas
Member, U.S. House of Representatives
9612 Van Nuys Boulevard, Suite 201
Panorama City, CA 91402

Attention:

Dear Representative Cárdenas:

I am responding to your inquiry on July 10, 2019, on behalf of your constituent, . wants written guidance on how the IRS would rule on an arrangement whereby an officer of two corporations, one for-profit and the other described in section 501(c)(3),¹ makes donations to the section 501(c)(3) corporation. The section 501(c)(3) corporation then distributes funds to the for-profit corporation.

I am sorry for the delay in responding to you. In general, only taxpayers and their authorized representatives may request a letter ruling on a taxpayer's specific set of facts.² A request for a letter ruling must include:

- A complete statement of facts;
- Other relevant information, if applicable; and
- An analysis of all material facts.³

Generally, section 6103, with limited exceptions, prohibits us from discussing information relating to a specific taxpayer with persons other than that taxpayer and their authorized representatives.

While we cannot issue a letter ruling in response to your letter, we have summarized

¹ Unless otherwise noted, all section references are to the Internal Revenue Code of 1986, as amended (the "Code").

² Rev. Proc. 2019-1 §§ 1.01(5), 2.01, 6.06; 2019-01 I.R.B. 1.

³ Rev. Proc. 2019-1 §§ 7.01(1), 7.01(3); 2019-01 I.R.B. 1.

several authorities you may find useful. If the taxpayer(s) described in your letter would like to seek a letter ruling after reviewing these authorities, the procedures are provided in Rev. Proc. 2019-1.⁴

Section 501(c)(3) describes, in part, organizations that are exempt from federal income tax under section 501(a) because they are organized and operated exclusively for religious, charitable, educational, or certain other specified purposes, provided that no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

Treas. Reg. § 1.501(c)(3)-1(c)(1) provides that 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 such exempt purposes specified in section 501(c)(3). An organization may lose its tax-exempt status if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Rev. Rul. 68-489⁵ provides that an organization exempt from federal income tax under section 501(c)(3) will not jeopardize its exempt status by distributing funds to organizations not themselves described in section 501(c)(3), provided the exempt organization:

- Retains control and discretion as to the use of the funds;
- Maintains records establishing the funds were used for section 501(c)(3) purposes; and
- Limits distributions to specific projects that further its own exempt purposes.

Rev. Rul. 68-489 was published before the enactment of the Tax Reform Act of 1969,⁶ which added certain provisions governing grantmaking by "private foundations" (in general, section 501(c)(3) organizations other than public charities).⁷ Though public charities are not subject to these provisions, they still must conduct any grantmaking activities in accordance with section 501(c)(3). Rev. Rul. 68-489 continues to reflect the IRS's official interpretation of section 501(c)(3) in the context of grantmaking by public charities to organizations not described in section 501(c)(3).

In addition to the authorities cited above, you may find the Internal Revenue Manual,⁸ IRS publications,⁹ and information on the IRS website¹⁰ helpful in determining the federal tax implications of the activities described in your letter.

⁴ 2019-01 I.R.B. 1.

⁵ 1968-2 C.B. 210.

⁶ Pub. L. 91-172.

⁷ See, e.g., section 4945; Treas. Reg. § 53.4945-5.

⁸ See, e.g., IRM 7.25.3 – *Religious, Charitable, Educational, Etc., Organizations*.

⁹ See, e.g., IRS Publications 17 and 557.

¹⁰ See, e.g., <https://www.irs.gov/charities-non-profits>.

This letter calls your attention to general principles of federal tax law. It is intended for informational purposes only and does not constitute a ruling.¹¹

I hope this information is helpful. If you need additional assistance, please contact me at

Sincerely,

James Zelasko
Branch Chief
Exempt Organizations Branch 2
Employee Benefits, Exempt Organizations, and
Employment Taxes

¹¹ See Rev. Proc. 2019-1 § 2.04; 2019-01 I.R.B. 1.