

MAR 1 1988

Dear Sir or Madam:

You were incorporated in [REDACTED] under the [REDACTED] Non-profit Corporation Act and your Articles of Incorporation, as amended, provide that you are organized exclusively for charitable, educational and religious purposes.

According to the information presented, you are created as a fundraising vehicle for the purpose of generating and providing financial support to a related church called [REDACTED]. You and the Church share the same directors and officers.

Your principal activity, if not your only activity, is the manufacture, production and sale of pottery and other art works. The manufacturing process takes place on Church property and the Church is paid \$[REDACTED] per month for the rental of the facility and equipment. Labor is provided by certain resident-members and officers of the Church, who are also vowed clergy of the Church. Finished goods are marketed directly and through galleries and similar retail outlets. Workers are not paid salaries or such, but do receive food, clothing, housing and insurance for their labor.

Gross sales for [REDACTED] and [REDACTED] were \$[REDACTED] and \$[REDACTED] respectively. Disbursements to the church for those years were \$[REDACTED] and \$[REDACTED]. Remaining funds were spent on rent, utilities, supplies and other operating expenses. Substantially all net profits are disbursed to the Church.

Section 513(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable, educational and religious purposes, no part of the net assets of which inure to the benefit of any private inquirer or individual.

Section 512 of the Code provides that an organization operated for the purpose of carrying on a trade or business for the production of income is not exempt from taxation under section 513(c) of the Code unless the net profits are payable to one or more exempt organizations.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname		[REDACTED]					
Date		3-1-88					

Revenue Ruling 79-164, 1973-1 C.B. 223, holds that a church-controlled commercial printing corporation whose business earnings are paid periodically to the church, but which has no other significant charitable activity, is a feeder organization described in section 502 of the Code and does not qualify for exemption under section 501(c)(3) of the Code, or any other section.

Also see Revenue Ruling 55-449, 1955-2 C.B. 599, which holds that an organization whose primary activity is the construction and sale of houses for the sole purpose of raising funds for the support of a church will not qualify for exemption.

Your principal activity is the operation of a trade or business, the proceeds of which are distributed to a related church. You maintain no other significant charitable activity or program. Accordingly, we have determined that you are a feeder organization and you are precluded from tax exemption by reason of section 502 of the Code. An organization that operates a trade or business will not qualify for exemption on the basis that all of its net profits are paid to a controlling organization. We are unable to clearly distinguish your method of operation from those described in the Revenue Rulings listed above.

Accordingly, tax-exemption is denied and you should file Federal income tax returns for all years.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the facts, please indicate this in your protest. The enclosed Publication 892 contains instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Appeals, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted available administrative remedies by failing to file a protest with the Internal Revenue Service."

If this determination letter becomes a final determination, you will notify all appropriate State officials, as required by section 514(c) of the Code, that based on the information we have, we are unable to recognize you as an organization of the type described in Code section 501(c)(3).

[REDACTED]

If you have any questions, you may contact the person whose name appears on the top of this letter.

Sincerely,

[REDACTED]
District Director

Enclosures:

Form 6018

Publication 892