

A nonprofit organization that conducts a model demonstration housing program for low-income families and disseminates information about the results of the program may qualify for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

Advice has been requested whether under the circumstances described below a nonprofit organization qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was formed to aid low-income families living in deteriorating neighborhoods in improving their homes. Its membership consists of other nonprofit institutions, neighborhood groups, and individuals. To accomplish its purposes, a model demonstration housing program is conducted by the organization. It is financed in part by a grant from the Department of Housing and Urban Development under Section 207 of the Housing Act of 1961 (42 U.S.C.A. 1436). The objects of the demonstration program are to test the feasibility, cost, and procedural and financial aspects of providing housing for low-income families through the acquisition, rehabilitation, and resale or lease of residential structures in a deteriorating neighborhood.

The Federal grant is allocated for three purposes: (1) research, analysis, writing, and printing of a statistical report on costs of the rehabilitation program, to be nationally distributed; (2) a partial funding of project costs, with the balance of the cost to be supplied by the organization; and (3) a revolving fund, to be matched by the organization, to be used to obtain a number of reasonably priced single-family homes, to be rehabilitated by the organization.

Local government officials and departments cooperate in the project. Renewal plans are prepared by the city planning department. Properties taken over by the city through tax foreclosure proceedings are transferred to the organization at cost for use in the demonstration project.

Homes rehabilitated by the organization in the model demonstration program are sold or leased to low-income or displaced families on a nonprofit basis. The organization does no new construction. Upon completion of the program, that part of the revolving fund advanced by the Department of Housing and Urban Development is to be returned to that agency.

To supplement the Federal grant, the organization is financed by contributions and the sale of interest-bearing obligations.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable or educational purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term 'charitable' includes relief of the poor and distressed or underprivileged, lessening of the burdens of government, and promotion of social welfare by conducting programs to combat community deterioration and juvenile delinquency.

Section 1.501(c)(3)-1(d)(3) of the regulations defines the term 'educational' for the purposes of section 501(c)(3) as including the instruction of the public on subjects useful to the individual and beneficial to the community.

The purposes and activities of the organization pertaining to the demonstration program are educational within the meaning of section 501(c)(3) of the Code. Inasmuch as the purposes and activities of the organization combat community deterioration as well, they are also charitable within the meaning of section 501(c)(3). The sale of renovated property, either at the conclusion of the project or in connection with the project, will not preclude exemption since the sale is incidental to, and in furtherance of, the demonstration project.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(3) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(3) of the Code, file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue 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.