

A nonprofit organization that conducts an annual festival centered around regional customs and traditions may qualify for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization whose only activity is conducting an annual festival centered around regional customs and traditions qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization is a nonprofit corporation located in a ranching community of a Western state. The organization owns a parcel of ground on which members, through donated labor and time, have constructed reviewing stands as well as animal pens and chutes.

The primary purpose of the organization is to conduct an annual festival that depicts regional customs and traditions. In a typical year, it features a banquet or barbecue, a parade, various contests, and a rodeo. At the banquet or barbecue the winners of the various contests are announced. The parade is made up of school bands, local riding clubs, and floats built by local organizations. Contests relate to dress and costumes concerning the traditions of the area. Floats generally depict the community history and customs. The festival is climaxed on the final day with the rodeo. The rodeo features professional riders on stock procured from commercial enterprises.

The community is located in an agricultural region where interest in horses and Western traditions runs high. The festival period is a major activity within the community during the year and most citizens of the community become involved in one way or another because of their interest in the regional customs and traditions. The festival is advertised extensively, not only locally, but also in surrounding communities.

In addition, the organization makes its grounds and facilities available, at no cost, to other civic and school organizations during the year.

The organization's primary source of income is from admission charges to the rodeo. Disbursements are for prizes to the winning riders and operating expenses for the festival. Any net profits are used to improve the rodeo and retire indebtedness incurred in acquiring rodeo properties.

Section 501(c)(4) of the Code provides for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization coming within the scope of this section is one which is operated primarily to bring about civic betterments and social improvements.

In carrying on the activities described, the organization provides recreation for the community, publicizes the community and attracts persons to it, promotes community growth, and provides a means whereby citizens may express their interest in local history, customs, and traditions. These activities promote the common good and general welfare of the people of the community and bring about civic betterments and social improvements.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(4) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must (in order to establish exemption under section 501(c)(4) of the Code) file an application on Form 1024, 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.