

A nonprofit corporation organized to aid and promote the purposes of the Area Redevelopment Act, Public Law 87-27, by providing funds through loans to purchase or develop land and facilities to alleviate unemployment in areas classified as "redevelopment areas" under the Act, is held exempt from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 as a civic league.

Advice has been requested whether an organization organized to aid and promote the purposes of the Area Redevelopment Act, Public Law 87-27, May 1, 1961, 75 Stat. 47, qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization in question was incorporated, under state law, as a nonstock, nonprofit corporation. Its purposes, briefly stated, are to aid and promote the public purposes of the Area Redevelopment Act by providing funds through loans to purchase or develop land and facilities in certain areas classified as "redevelopment areas" under the Act, thereby helping to alleviate unemployment within these areas. No part of the net earnings of the organization shall inure to the benefit of any private shareholder or individual, nor shall the organization engage in any legislative or political activities. In the event of dissolution the remaining assets of the organization shall be distributed to counties within the redevelopment area to be used solely for public purposes.

The primary purpose of the Area Redevelopment Act is to overcome unemployment and the accompanying hardship and wasting of vital human resources. Its method of accomplishing this, in part, is to facilitate the financing of projects for the purchase or development of land, or facilities for industrial and commercial usage, in areas that have substantial and persistent unemployment or underemployment and which have been designated as "redevelopment areas" by the Secretary of Commerce.

Area Redevelopment Act loans are available to proprietorships, partnerships, corporations, governmental bodies, public nonprofit corporations and state or local development companies meeting the requirements prescribed by the Act.

One of the prerequisites for obtaining funds from the Area Redevelopment Administration is that not less than 10 percent of the cost of the land and the facilities involved must be supplied by the "State or any agency, instrumentality, or political subdivision thereof, or by an Indian tribe or a community or area organization which is nongovernmental in character, \* \* \*." Thus, it is in connection with providing the 10 percent of funds described above that the organization is engaged. This 10 percent of the cost must be provided either as equity capital or as a loan subordinate to the assistance provided by the Area

Redevelopment Administration.

The organization's funds are derived from contributions or gifts from corporations and individuals, loans, and membership fees and dues. Expenditures are made as loans in connection with furnishing funds in furtherance of the above-described purpose, and for operating expenses.

Section 501(c)(4) of the Code provides, in part, for the exemption of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

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 embraced within this section is one which is operated to bring about civic betterment and social improvements. See section 1.501(c)(4)-1 of the Income Tax Regulations.

The instant organization, in carrying out its purposes of providing funds through loans to assist in eliminating unemployment in furtherance of the public purposes of the Area Redevelopment Act, is being operated primarily to bring about civic betterment and social improvement. Accordingly, it is held that the organization qualifies for exemption from Federal income tax under section 501(c)(4) of the Code as a civic league.

Contributions to the organization may be deducted as ordinary and necessary business expenses under section 162 of the Code for the taxable year paid or incurred if such contributions bear a direct relationship to the donor's business and are made with a reasonable expectation of a financial return commensurate with the amount of the contribution. This is essentially a question of fact to be determined in each instance with regard to the individual contributor. See I.T. 3706, C.B. 1945, 87.

An organization may not consider itself exempt merely because it falls within the scope of this Revenue Ruling. In order to establish its exemption under section 501(c)(4), it is necessary to file an application of 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.