

An organization formed for the purpose of training suitable candidates in the techniques of racing sailboats in national and international competition, and thereby improving the calibre of candidates representing the United States in Olympic and Pan-American games, qualifies for exemption from Federal income tax as an educational organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

Advice has been requested as to whether an organization formed for the purpose of providing advanced training to suitable candidates in the techniques of racing small sailboats in national and international competition is exempt from Federal income tax as an educational organization described in section 501(c)(3) of the Internal Revenue Code of 1954.

The instant organization was incorporated as an educational institution pursuant to a charter granted by the board of regents of the education department of the state. According to the provisions of its charter, the organization was incorporated:

(a) To provide for the training of suitable candidates in the techniques of racing small sailboats in national and international competition, and thereby to improve the calibre of candidates for the representation of the United States in the Olympic and Pan-American Games and other international racing events;

(b) To provide practice racing sessions, classroom lectures, seminars and panel discussions through which selected trainees may be schooled in competitive helmsmanship, sail handling and racing tactics; and

(c) To conduct a program between the United States and European and other foreign nations for the exchange and training of suitable candidates in the techniques and practices of sailboat racing in countries other than their own.

The charter also provides that the corporation thereby created shall be a nonstock corporation organized and operated exclusively for educational purposes, and no part of its earnings or net income shall inure to the benefit of any individual, and no officer, member or employee shall receive or be entitled to receive any pecuniary profit from the operations thereof, except reasonable compensation for services.

The organization was created essentially for the purpose of providing advanced training to suitable candidates in the techniques of racing small sailboats in national and international competition, and thereby to improve the calibre of candidates for the representation of the United States in the Olympic and Pan-American games and other international racing events.

The training offered the selected candidates consists of practical training sessions, classroom lectures, seminars and panel discussions through which the candidates are schooled in the various aspects of national and international competition.

The training sessions, referred to as symposiums, are conducted by nationally and internationally known racing experts who contribute their services to the schooling of students in the refinements of helmsmanship, sail handling and racing tactics with coverage of many related subjects including sailboat design, sail manufacturing and trim, racing rules and safety, and Olympic rules and scoring. The symposiums, lasting from three to five days, combine practical training with classroom sessions during which the experts analyze and criticize the performance of the students and provide new ideas and techniques which can then be tried out by the students in ensuing practice sessions. The students also take turns observing the performance of their fellow students.

Following each practice session, a 'post-mortem' is held at which the experts comment on the performance of the various trainees during the session, pointing out mistakes and possibilities for improvement.

Also, there has been initiated the practice of devoting the afternoons to demonstration sessions conducted by members of the volunteer teaching staff, with the students watching from launches in which a running commentary is given by additional members of the staff.

In addition to the demonstration sessions, classroom lectures and post-mortems which are scheduled each day, frequent evening meetings are held during the symposiums at which selected experts carry on panel discussions of various advanced racing techniques.

The organization conducts a program for the exchange of young sailing students between the United States and other nations. The student exchange program is an important adjunct to the symposiums as it provides an opportunity for American students to observe and learn the racing techniques followed in waters other than their own. In turn, the overseas representatives who come to this country are admitted to the symposiums where they can become familiar with our practices and, in the informal exchange which follows each practice and classroom session, compare notes with our trainees on the racing theories and practices followed here and abroad.

There are three regular symposiums in the summer, and three winter lectures and panel discussions on racing techniques, rules and boating safety. Also, one special symposium is planned early in each year for training Junior Sailing Program instructors who will train young people in the elements of boating safety, racing techniques and sportsmanship.

One of the activities of the organization is to assist the United States Olympic Association in the selection of boats and sailing teams to represent the United States in the Olympic and Pan-American Games. The United States Olympic Association has been held exempt under section 501(c)(3) of the Code as a quasi-public organization charged with the carrying out of the national purpose and policy established by Congress to participate as a nation in the Games. As such, the selection of athletes to represent the nation is one of its essential and exempt purposes.

The Association may designate other organizations to act as its agent in performing its exempt purposes and may distribute certain of its funds to these organizations to use in carrying out these activities, such as the selection and training of various Olympic teams.

Section 501(c)(3) of the Code describes certain organizations exempt from Federal income tax under section 501(a) of the Code and reads, in part, as follows:

(3) Corporations * * * organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation * * *.

Under section 501(c)(3) of the Code, an organization is deemed to be organized and operated exclusively for one or more of the purposes specified therein if its articles of incorporation limit its purposes to one or more exempt purposes and substantially all of its activities are devoted to such specified purpose or purposes. Thus, an activity which is in fact incidental, secondary, or subservient to an organization's exempt purpose or purposes and which, when weighed against the whole of the activities of the organization, is less than a substantial part of the total, will not ordinarily operate to deny exemption.

Section 1.501(c)(3)-1 of the Income Tax Regulations.

Section 1.501(c)(3)-1(d)(3) of the regulations defines as 'educational' an organization whose purposes are:

(a) The instruction or training of the individual for the purposes of improving or developing his capabilities; or

(b) The instruction of the public on subjects useful to the individual and beneficial to the community.

The examples of educational organizations in this section of the regulations include a professional or trade school, and in section 1.151-3(c) of the regulations, relating to the definition of an educational institution for purposes of a student exemption, there are included technical and mechanical schools.

In the area of judicial construction, the courts have consistently held that training in athletic and physical fitness is 'educational.' In *Commissioners of District of Columbia v. Shannon & Luchs Const. Co., Inc.*, 17 Fed. (2d) 219 (1927), the court held that education includes the physical development of a person, and quoted with approval from the case of *German Gymnastic Association of Louisville v. City of Louisville*, 80 S.W. 201 (1904), where the court stated in regard to education that '* * * It likewise may consist in the development of one's physical faculties. * * *' See also Revenue Ruling 55-587, C.B. 1955-2, 261, in which it was held that an interscholastic athletic association was organized and operated primarily for educational purposes and therefore exempt from Federal income tax under section 501(c)(3) of the Code.

The training offered by the instant organization involves theoretical instruction together with a considerable amount of training of the individual's physical capabilities in relation to the subject of sailboat racing. In view of the inclusive definition of education in the regulations, and the fact that the courts have traditionally included physical development in that term, it is concluded that the physical education involved in the organization's program qualifies as educational. In addition, the sailing school activities are considered analogous to a trade school or a technical school, as referred to in the regulations, above.

Upon the basis of the facts herein presented, the symposium activities are the primary and central purpose of the organization. The symposium includes classroom lectures, demonstration sailing sessions, practice sailing sessions under the guidance of instructors, post-mortem commentary sessions and panel discussions on many subjects including helmsmanship, sail handling, racing techniques, sailboat design, sails manufacturing and trim, racing rules and safety, and Olympic rules and scoring. The purpose of these activities is to improve the individual student's capabilities for sailing and racing and increase the number of qualified candidates for possible Olympic participation. Over 1000 persons have attended the symposiums and lectures and the activities have not been limited to a privileged few.

Accordingly, it is held that the instant organization qualifies for exemption from Federal income tax as an educational organization described in section 501(c)(3) of the Code.

An organization may not consider itself exempt from tax merely because it falls within the scope of this Revenue Ruling. In order to establish exemption, it is necessary that every organization claiming 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.