***Forest Press, Inc. v. Commissioner*, 29 T.C. 108 (1957)**

A corporation is exempt from federal income tax under Section 101(6) of the Internal Revenue Code if it is organized and operated exclusively for educational purposes, even if its charter permits other activities, provided that the activities are confined to the educational purpose.

Summary

Forest Press, Inc. was created to prepare and publish the Dewey Decimal Classification System. The IRS challenged its tax-exempt status, arguing that its unrestricted certificate of incorporation and commercial activities disqualified it. The Tax Court ruled in favor of Forest Press, finding that the corporation was organized and operated exclusively for educational purposes. The court emphasized that the actual activities and purpose of the corporation, rather than the breadth of its charter, determined its eligibility for exemption. It determined that Forest Press was not a commercial enterprise as its activities were limited to educational purposes.

Facts

Forest Press, Inc. was incorporated to prepare, edit, and publish the Dewey Decimal Classification System. The corporation's activities were limited to this purpose. The IRS argued that the corporation was engaged in a commercial publishing enterprise and was therefore not organized and operated exclusively for educational purposes under Section 101(6) of the Internal Revenue Code. The corporation argued that the Dewey Decimal Classification System was an educational tool and that its activities were solely related to educational purposes. It also contended that any profits would eventually be paid to its parent foundation for educational use.

Procedural History

The case was initially brought before the United States Tax Court. The Tax Court ruled in favor of Forest Press, Inc., finding that it was exempt from taxation under Section 101(6) of the Internal Revenue Code. The Court reviewed the case and affirmed the decision.

Issue(s)

Whether Forest Press, Inc. was exempt from federal income tax under Section 101(6) of the Internal Revenue Code.

Holding

Yes, because the corporation was both organized and operated exclusively for educational purposes, despite its unrestricted certificate of incorporation.

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Court’s Reasoning

The court relied on Section 101(6) of the Internal Revenue Code, which provides exemptions for organizations organized and operated exclusively for educational purposes. The court considered that while the charter of the corporation might have permitted other activities, the corporation’s actual activities were limited to educational purposes, which determined its eligibility for exemption. The court cited the case of *Unity School of Christianity*, where the court stated that the purpose of its organization and operation is still a question of fact. The court found that the corporation was formed for the purpose of preparing and publishing the Dewey Decimal Classification System and that its activities were confined to that function. The Court also distinguished the case from other commercial enterprises that also dedicated all profits to educational causes.

The Court reasoned that “the fact that the incorporation was under the business law is indicative of its commercial purpose. This might be significant if not otherwise explained, but it is not conclusive.” The Court emphasized that the corporation’s purpose and actual activities were educational, which was sufficient for exemption.

Practical Implications

This case is a significant precedent for determining the tax-exempt status of educational organizations. It emphasizes the importance of focusing on the actual activities and purpose of an organization rather than the scope of its charter. This ruling is important for organizations that are engaged in educational activities to qualify for exemption under Section 501(c)(3) of the Internal Revenue Code. It suggests that organizations should ensure that their activities and operations are aligned with their stated educational purposes. Also, the ruling implies that even if the charter is written to be open-ended, actual activities are what the courts will examine.

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