***Estate of John E. Goodan v. Commissioner*, 12 T.C. 760 (1949)**

A charitable organization does not lose its tax-exempt status if its legislative activities are a mere incident of its charitable purpose and not a substantial part of its overall activities.

Summary

The Estate of John E. Goodan challenged the Commissioner's disallowance of a gift tax deduction. The gift was made to a trust, which in turn was to provide income to a charitable foundation. The Commissioner argued that the foundation's payments to another organization, KWA, for legislative activities, disqualified the gift for a charitable deduction. The Tax Court ruled in favor of the Estate, holding that the foundation's activities, including the support of KWA, were primarily charitable, and any legislative activities were merely incidental. The court underscored that the legislative activities did not constitute a substantial part of the foundation's overall charitable purpose, therefore, the gift remained deductible.

Facts

John E. Goodan established a trust with a corpus of approximately $250,000 in securities for the benefit of a charitable foundation. The foundation, in turn, was to provide funding to other organizations, including KWA (Kentucky Welfare Association). KWA's articles of incorporation specified certain limited payments from the foundation, particularly for an executive secretary whose job was to liaise with the various district committees, instructing them on how to provide relief. The Commissioner disallowed the deduction for gift tax purposes, arguing that KWA's legislative activities, which involved social service legislation, disqualified the foundation and, therefore, the gift, from charitable status under Section 1004(a)(2)(B) of the Internal Revenue Code of 1939, which states that no substantial part of an organization's activities is carrying on propaganda, or otherwise attempting, to influence legislation.

Procedural History

The Estate of John E. Goodan sought a gift tax deduction for the conveyance in trust. The Commissioner of Internal Revenue disallowed the deduction. The Estate then brought the case to the United States Tax Court to challenge the Commissioner's decision.

Issue(s)

1. Whether the foundation, which received income from the trust, was engaged in activities that disqualified it from being considered a charitable organization under Section 1004(a)(2)(B) of the Internal Revenue Code of 1939.

2. Whether the legislative activities of the foundation, through its payments to KWA,

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constituted a substantial part of the foundation's activities, thereby preventing the gift from qualifying for a deduction.

Holding

1. No, because the court held that the foundation's activities, including its financial support of KWA, were primarily charitable in nature.

2. No, because the court found that the legislative activities of the foundation, though supporting some legislative work through KWA, were merely incidental to the foundation's charitable purposes and did not constitute a substantial part of its activities.

Court's Reasoning

The Tax Court applied the provisions of Section 1004(a)(2)(B) of the Internal Revenue Code of 1939, which allows deductions for gifts to charitable organizations as long as no substantial part of their activities involve influencing legislation. The court reasoned that the payments to KWA, in their purpose and limited amount, did not carry an indication of propaganda. The payments to KWA were for a very particular purpose, providing an executive secretary to provide advice on the conditions of distress. Furthermore, the legislative activities of KWA were a very small part of their general activities, and were purely incidental to the primary charitable purposes. The Court considered the activities of KWA's 17 other committees working on problems throughout the state. The court stated, "Political agitation as such is outside the statute, however innocent the aim".

The court referenced previous cases, including *Slee v. Commissioner*, which distinguished between political activities of a general character and those that are a necessary incident of charitable, educational, or religious purposes. The court concluded that the foundation's support of KWA did not disqualify it from charitable status because KWA's legislative activities were only incidental to its primary charitable functions.

Practical Implications

This case provides important guidance on what qualifies as permissible activities for charitable organizations seeking tax deductions. It clarifies that organizations can engage in some degree of legislative activity without jeopardizing their tax-exempt status, provided the legislative activities are incidental to their primary charitable purpose and do not constitute a substantial part of their overall activities. This ruling is significant for charities, trusts, and donors as it outlines the boundaries of permissible legislative involvement without losing tax benefits. It provides guidance on how to assess the impact of legislative activities on an organization's tax-exempt status, allowing organizations to structure their activities to ensure compliance with the law.

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