25 T.C. 924 (1956)

An organization's claim to tax-exempt status under I.R.C. § 101(6) as a charitable entity is denied if its primary purpose of operation is to benefit private interests rather than serve charitable purposes exclusively.

Summary

The Lesavoy Foundation, established as a charitable trust, acquired and operated a cotton yarn manufacturing business. The Tax Court determined that the foundation's primary purpose in operating the business was to provide an assured supply of yarn for businesses controlled by the foundation's settlor and his family. The court found this purpose to be inconsistent with the requirements for tax-exempt status under I.R.C. § 101(6), which requires that an organization be operated exclusively for charitable purposes. Consequently, the court denied the foundation's claim for tax exemption, finding it taxable as a trust. Additionally, the court upheld the Commissioner's imposition of penalties for delinquency and negligence.

Facts

I. Lawrence Lesavoy created the Lesavoy Foundation as an irrevocable charitable trust. Initially, the foundation made charitable contributions, and the IRS granted it tax-exempt status. However, the foundation later acquired and operated a cotton yarn manufacturing business, Clover Spinning Mills, Inc. The primary reason for the acquisition was to ensure a supply of yarn for businesses owned by Lesavoy and his family. After this acquisition, the IRS revoked the foundation's exempt status. The IRS assessed deficiencies in income tax and penalties for delinquency and negligence.

Procedural History

The IRS revoked the Lesavoy Foundation's tax-exempt status. The Commissioner of Internal Revenue then assessed income tax deficiencies and penalties against the foundation for the years 1946, 1947, 1948, and 1950. The Lesavoy Foundation challenged these assessments in the United States Tax Court.

Issue(s)

1. Whether the Lesavoy Foundation was exempt from income tax under I.R.C. § 101(6).

2. If not exempt, whether the foundation was taxable as a trust or a corporation.

3. Whether the Commissioner properly determined that the foundation was liable for penalties for delinquency and negligence.

Holding

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1. No, because the foundation’s primary purpose was to benefit private interests, not exclusively for charitable purposes.

2. Yes, the foundation was taxable as a trust.

3. Yes, because the failure to file tax returns and the negligence in adequately informing the IRS of changes in activities warranted the penalties.

Court’s Reasoning

The Tax Court focused on whether the foundation operated

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