Levy Family Tribe Foundation, Inc. v. Commissioner, 69 T. C. 615 (1978)

An organization must be operated exclusively for exempt purposes to qualify for tax-exempt status under IRC § 501(c)(3).

Summary

The Levy Family Tribe Foundation, Inc. , sought tax-exempt status under IRC § 501(c)(3) but was denied by the IRS. The foundation's primary activity was trading used postage stamps with the 'children of Israel,' which they claimed was for religious purposes. However, the Tax Court held that the foundation did not meet the operational test because its activities were personal and served as an adjunct to a family business, rather than serving a public purpose. The court emphasized the need for clear delineation between personal and organizational activities and found no evidence that the stamp trading furthered any exempt purpose.

Facts

The Levy Family Tribe Foundation, Inc. , was incorporated in Virginia in 1974 to trade postage stamps with the 'children of Israel' and to further religious and cultural purposes related to the Tribe of Levi. The foundation's officers and directors were Charles W. Levy and his parents, Barney and Mae Levy, who had been trading stamps since 1967. The foundation sought to establish facilities in Israel for cultural and religious activities but had not received government approval for these projects. The foundation's assets primarily consisted of postage stamps, and it had engaged in minimal fundraising efforts.

Procedural History

The IRS denied the foundation's application for tax-exempt status, leading to a final notice of determination in April 1977. The foundation then sought a declaratory judgment from the U. S. Tax Court under IRC § 7428, challenging the IRS's determination that it did not qualify for exemption under IRC § 501(a) and § 501(c)(3).

Issue(s)

1. Whether the Levy Family Tribe Foundation, Inc. , meets the operational test required for tax-exempt status under IRC § 501(c)(3).

Holding

1. No, because the foundation's activities were personal and served private interests rather than public purposes, failing to meet the operational test of IRC § 501(c)(3).

Court's Reasoning

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The court applied the operational test from the regulations under IRC § 501(c)(3), which requires an organization to operate exclusively for exempt purposes. The court found that the foundation's stamp trading activity was indistinguishable from the personal activities of the Levy family, who were the sole officers and directors. The court noted the absence of any evidence showing how the stamp trading furthered an exempt purpose, such as religious or charitable activities. Furthermore, the court dismissed the foundation's proposed future activities as unsupported by evidence of realistic expectation or capability. The court emphasized that the foundation's operations were more aligned with personal interests and family business than with public, exempt purposes.

Practical Implications

This decision underscores the importance of clearly delineating between personal and organizational activities when seeking tax-exempt status. Organizations must provide concrete evidence that their activities further exempt purposes, such as religious, charitable, or educational goals. The case also highlights the scrutiny applied to organizations controlled by family members, where the line between personal benefit and public purpose can be blurred. Legal practitioners advising nonprofit organizations should ensure that their clients' activities and governance structures align with the operational requirements of IRC § 501(c)(3). This ruling may impact how similar organizations structure their activities and document their exempt purposes to avoid denial of tax-exempt status.

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