San Francisco Infant School, Inc. v. Commissioner, 69 T. C. 957, 1978 U. S. Tax Ct. LEXIS 155 (1978)

Custodial care can be considered incidental to an organization's educational purpose, allowing it to qualify for tax-exempt status under IRC Section 501(c)(3).

Summary

San Francisco Infant School, Inc. , a nonprofit providing educational day care for infants, sought tax-exempt status under IRC Section 501(c)(3). The IRS denied the exemption, deeming the services primarily custodial. The Tax Court, however, found that the school's custodial services were incidental to its educational purpose. The court emphasized the school's comprehensive curriculum and expert testimony on the educational value of infant care, holding that the organization qualified for tax exemption as it operated exclusively for educational purposes.

Facts

San Francisco Infant School, Inc. , a California nonprofit, was founded by attorneys to provide education-oriented child care for infants aged 6 months to 3 years. The school employed qualified teachers and maintained a low student-teacher ratio. It had a detailed curriculum focusing on language, sensory/cognitive, motor, and social development. The IRS denied the school's application for tax-exempt status under IRC Section 501(c)(3), asserting that the services were primarily custodial. The school appealed, providing expert affidavits supporting its educational program.

Procedural History

The IRS initially denied the school's application for tax-exempt status. The school exhausted its administrative remedies and filed a petition for a declaratory judgment in the U. S. Tax Court under IRC Section 7428. Both parties moved for summary judgment based on the stipulated administrative record.

Issue(s)

1. Whether the custodial services provided by San Francisco Infant School, Inc. were incidental to its educational purpose under IRC Section 501(c)(3).

Holding

1. Yes, because the custodial care was a necessary part of the educational services provided by the school, and the school's primary purpose was educational.

Court's Reasoning

The Tax Court applied the operational test from the IRC regulations, which requires that an organization be operated exclusively for exempt purposes. The court found

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that the school's curriculum and expert testimony demonstrated a clear educational purpose. It rejected the IRS's argument that the custodial care was a substantial noneducational purpose, noting that such care was integral to the education provided. The court cited *Better Business Bureau v. United States* to distinguish between organizations with commercial and educational purposes, emphasizing that the school had no commercial purpose and that its custodial services were designed to complement its educational goals. The court also noted that custodial services are common in educational settings at all levels and referenced IRS rulings that recognized such services as advancing educational purposes.

Practical Implications

This decision expands the scope of what can be considered educational under IRC Section 501(c)(3) by recognizing that custodial care can be incidental to an educational purpose, even for very young children. Legal practitioners should consider this ruling when advising nonprofit organizations, particularly those providing educational services to infants or young children. The decision may encourage the development of similar programs by clarifying that they can qualify for tax-exempt status. Subsequent cases and IRS guidance should be monitored to see how this ruling is applied or distinguished in different contexts.

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