Warren M. Goodspeed Scholarship Fund v. Commissioner, 70 T. C. 523 (1978)

A supporting organization can meet the organizational test under section 509(a)(3) without explicitly stating it is organized for the benefit of a specified public charity, as long as its purpose is clear from the organizing document.

Summary

The Warren M. Goodspeed Scholarship Fund challenged the IRS's classification as a private foundation, asserting it was a supporting organization for Yale University under section 509(a)(3). The fund's organizing document, Joan R. Goodspeed's will, designated its income for scholarships to Yale College for Duxbury, Massachusetts, students. The IRS argued the will failed the organizational test because it did not state the fund was organized exclusively for Yale's benefit. The Tax Court held that the will's provisions were sufficient to meet the organizational test, emphasizing that specific language was not required if the purpose was clear.

Facts

Joan R. Goodspeed's will established the Warren M. Goodspeed Scholarship Fund as a charitable trust to provide scholarships to Yale College for graduates of Duxbury High School or bona fide Duxbury residents. The will specified that a committee, including representatives from Duxbury High School, the trustee bank, and Yale University, would select scholarship recipients. The fund applied for tax-exempt status as a supporting organization under section 509(a)(3), but the IRS classified it as a private foundation due to the will's failure to explicitly state it was organized for Yale's benefit.

Procedural History

The IRS issued a final adverse ruling on September 1, 1976, classifying the fund as a private foundation. The ruling was reissued and affirmed on April 5, 1977. The fund filed a petition with the Tax Court for a declaratory judgment under section 7428, challenging the IRS's classification. The Tax Court heard arguments and issued its decision on the organizational test.

Issue(s)

1. Whether the Warren M. Goodspeed Scholarship Fund meets the organizational test under section 509(a)(3) when its organizing document does not explicitly state that it is organized exclusively for the benefit of Yale University.

Holding

1. Yes, because the will's provisions clearly indicate the fund's purpose to support Yale University by providing scholarships to its students, even without using specific

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language required by the IRS.

Court’s Reasoning

The Tax Court held that the organizational test under section 509(a)(3) does not require specific language in the organizing document if the purpose is clear. The court noted that the will’s provisions explicitly directed the fund’s income to be used for Yale College scholarships, thus meeting the test. The court rejected the IRS’s argument that the will needed to state in haec verba that the fund was organized for Yale’s benefit, emphasizing that the will’s purpose was unambiguous. The court also highlighted the IRS’s procedural stance, which focused on the lack of specific language rather than the substantive purpose of the fund. The court’s decision was supported by the IRS’s admission that the fund could meet the test by amending the will to include the required language, which suggested the IRS did not substantively challenge the fund’s purpose.

Practical Implications

This decision clarifies that the organizational test for supporting organizations under section 509(a)(3) can be satisfied without specific language in the organizing document, as long as the document’s purpose is clear. Legal practitioners should focus on ensuring the organizing document’s purpose is unambiguous rather than using exact phrases. For organizations seeking supporting organization status, this ruling suggests they may not need to amend their documents to include specific language if their purpose is already clear. The decision may also influence how the IRS evaluates similar cases, potentially reducing the need for formal amendments to meet the organizational test. Subsequent cases may reference this ruling when interpreting the organizational test requirements for supporting organizations.

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