National Association for the Legal Support of Alternative Schools v. Commissioner, 71 T. C. 118, 1978 U. S. Tax Ct. LEXIS 35 (1978)

An organization qualifies as 'educational' for tax-exempt status under Section 501(c)(3) if it instructs the public on subjects useful to individuals and beneficial to the community, even if it advocates a particular position, as long as it presents a full and fair exposition of pertinent facts.

Summary

The National Association for the Legal Support of Alternative Schools sought tax-exempt status under Section 501(c)(3) as an educational organization. The IRS denied the exemption, arguing the association served private interests and was not educational. The Tax Court held that the association met the operational test for exemption because it provided public information on alternative education, satisfying the 'educational' purpose by offering a balanced presentation of facts. The court emphasized the organization's efforts to inform the public about alternative schools, which was deemed beneficial to the community and not merely serving private interests.

Facts

The National Association for the Legal Support of Alternative Schools, a nonprofit corporation founded in June 1975, aimed to promote better education through private educational opportunities and provide information on alternatives to public education. The association collected legal documents on alternative schools, made them available to the public, and provided advice on home study programs. It had limited funds, with most revenue from membership dues and contributions. The association's bylaws outlined objectives including research, legal services, and publication of a newsletter, which it struggled to maintain due to funding issues.

Procedural History

The association applied for tax-exempt status under Section 501(c)(3), which was denied by the IRS. After exhausting administrative remedies, the association filed a petition for a declaratory judgment with the United States Tax Court, challenging the IRS's determination. The case was submitted under Rule 122 of the Tax Court Rules of Practice and Procedure, and the court reviewed the administrative record.

Issue(s)

1. Whether the National Association for the Legal Support of Alternative Schools serves public rather than private interests.
2. Whether the association operates as an 'educational' organization within the meaning of Section 501(c)(3).

Holding

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1. Yes, because the association's information and services are available to the public, not just members, demonstrating a public interest.
2. Yes, because the association instructs the public on alternative education, presenting a full and fair exposition of facts, which is considered 'educational' under the regulations.

Court's Reasoning

The court analyzed the IRS's arguments that the association failed the operational test for tax-exempt status. The court found that the association's availability of legal documents and information to the public at minimal cost served public rather than private interests. Regarding the educational purpose, the court applied the regulation defining 'educational' as instruction useful to individuals and beneficial to the community. The court rejected the IRS's contention that the association did not present a full and fair exposition of facts, noting that providing legal briefs and encouraging differing viewpoints in its newsletter met the standard. The court emphasized that the association's activities were consistent with the educational purpose, despite advocating for alternative schools, as long as it allowed the public to form independent opinions.

Practical Implications

This decision clarifies that organizations advocating a specific educational approach can still qualify for tax-exempt status under Section 501(c)(3) if they provide balanced information. Legal practitioners should consider this when advising clients on establishing or maintaining nonprofit status, focusing on how their educational activities are presented to the public. Businesses and individuals interested in alternative education can benefit from the validation of such organizations' public service role. Subsequent cases, like *San Francisco Infant School v. Commissioner*, have applied similar reasoning in determining educational exemptions.

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