Industrial Aid for the Blind v. Commissioner, 73 T. C. 96 (1979)

An organization primarily providing employment to the blind and selling their products is exempt under IRC Section 501(c)(3) as a charitable organization.

Summary

Industrial Aid for the Blind, organized to sell products made by the blind, sought to retain its tax-exempt status under IRC Section 501(c)(3). The IRS challenged this, arguing the organization operated primarily for profit. The Tax Court ruled in favor of Industrial Aid, holding that its primary purpose was to provide employment for the blind, which is a charitable purpose under the statute. The court emphasized that the sale of products was incidental to this exempt purpose and that any profits were distributed to support the blind, thus affirming the organization's tax-exempt status.

Facts

Industrial Aid for the Blind was organized in 1941 to purchase and sell products manufactured by the Wisconsin Workshop for the Blind (WWB), an agency of the Wisconsin State Department of Public Welfare. It also sold products from 19 other workshops affiliated with National Industries for the Blind (NIB), a Section 501(c)(3) organization. During 1966-68, Industrial Aid distributed its net profits to WWB workers as bonuses. The IRS revoked Industrial Aid's tax-exempt status, claiming it operated primarily for profit.

Procedural History

Industrial Aid challenged the IRS's revocation of its tax-exempt status in the U. S. Tax Court. The case was submitted for decision based on the stipulated administrative record. The Tax Court issued its opinion on October 15, 1979, affirming Industrial Aid's exempt status under Section 501(c)(3).

Issue(s)

1. Whether Industrial Aid for the Blind is operated exclusively for charitable purposes within the meaning of IRC Section 501(c)(3).

Holding

1. Yes, because the primary purpose of Industrial Aid is to provide employment to the blind, which is a charitable purpose under Section 501(c)(3), and the sale of products is incidental to this purpose.

Court's Reasoning

The court applied the organizational and operational tests under Section 501(c)(3)

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and found that Industrial Aid met both. The court noted that the presence of profit-making activities does not necessarily disqualify an organization from exemption if those activities further an exempt purpose. Industrial Aid's primary purpose was to provide employment to the blind, alleviating their hardships in securing and holding employment. The sale of products was seen as an integral part of this charitable purpose. The court distinguished this case from Veterans Foundation v. United States, emphasizing that Industrial Aid's activities directly benefited the blind by providing them employment opportunities, not merely generating income for other exempt purposes.

Practical Implications

This decision clarifies that organizations primarily engaged in providing employment to the disabled, even if they involve commercial activities, can qualify for tax-exempt status under Section 501(c)(3). Legal practitioners should analyze similar cases by focusing on the primary purpose of the organization and whether commercial activities are incidental to that purpose. This ruling impacts how organizations structured to support the disabled can structure their operations to maintain or achieve tax-exempt status. Subsequent cases have applied this principle, reinforcing the importance of the primary purpose test in determining tax-exempt status.

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