Greater United Navajo Development Enterprises, Inc. v. Commissioner of Internal Revenue, 74 T. C. 69 (1980)

A nonprofit organization's tax-exempt status under IRC 501(c)(3) can be denied if it is primarily operated for commercial purposes rather than exclusively for charitable or educational purposes.

Summary

Greater United Navajo Development Enterprises, Inc. (GUNDE) sought tax-exempt status under IRC 501(c)(3) but was denied by the IRS. GUNDE aimed to benefit the Navajo Nation's poor through economic development but engaged in significant commercial activities, including leasing oil well drilling equipment through Madar, Inc. , a for-profit entity. The Tax Court held that GUNDE was not operated exclusively for exempt purposes because its primary activity, the equipment leasing business, was conducted for profit and not directly related to its charitable mission. The court emphasized that even if profits were used for charitable purposes, the organization's main purpose was commercial, thus disqualifying it from tax-exempt status.

Facts

GUNDE was a nonprofit corporation organized to benefit the poor of the Navajo Nation by promoting economic development and business ownership. It received a federal grant in 1974 but later relied heavily on leasing oil well drilling equipment outside the Navajo Reservation through Madar, Inc. , a for-profit company. GUNDE also engaged in construction projects, equipment leasing, and other business ventures, some of which were discontinued. The equipment leasing with Madar, Inc. was GUNDE's most substantial revenue source, and no evidence showed that it employed Navajos or furthered GUNDE's charitable goals.

Procedural History

GUNDE applied for tax-exempt status under IRC 501(c)(3) in 1977, which was denied by the IRS in 1978. GUNDE then sought a declaratory judgment from the U. S. Tax Court, which upheld the IRS's decision, finding that GUNDE was not operated exclusively for exempt purposes.

Issue(s)

1. Whether GUNDE was operated exclusively for charitable or educational purposes within the meaning of IRC 501(c)(3).

Holding

1. No, because GUNDE's primary activity was the operation of a commercial equipment leasing business for profit, which was unrelated to its charitable mission.

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Court’s Reasoning

The court applied the operational test, which requires an organization to be primarily engaged in activities that accomplish exempt purposes. GUNDE’s leasing of oil well drilling equipment through Madar, Inc. , was its largest source of income, and there was no evidence that this activity furthered its charitable goals. The court rejected GUNDE’s argument that using profits for charitable purposes was sufficient, citing precedent that the purpose of the activity itself must be charitable, not merely the use of its profits. The court concluded that GUNDE was operated primarily for commercial gain, thus failing the operational test for tax-exempt status under IRC 501(c)(3).

Practical Implications

This decision underscores the importance of ensuring that a nonprofit’s primary activities directly further its charitable mission. Organizations engaging in substantial commercial activities risk losing their tax-exempt status, even if those activities generate funds for charitable use. Legal practitioners advising nonprofits should scrutinize the primary purpose of all activities, particularly those that could be construed as commercial. This case has been cited in subsequent rulings to deny tax-exempt status to organizations with significant unrelated business income. Nonprofits should consider restructuring or limiting commercial activities to maintain their exempt status.

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