

Schoger Foundation v. Commissioner, 76 T. C. 388 (1981)

An organization's tax-exempt status under Section 501(c)(3) can be denied if its primary activities are found to be substantially nonexempt, even if it claims to operate for religious purposes.

Summary

The Schoger Foundation sought tax-exempt status as a religious retreat facility but was denied by the IRS. The Tax Court upheld the denial, finding that the Foundation's operation of Christ Haven Lodge primarily provided social and recreational activities rather than religious ones. Despite the Foundation's claim of fostering a religious environment, the court determined that the nonexempt activities were more than insubstantial, thus failing the operational test required for tax exemption under Section 501(c)(3). This case underscores the necessity for organizations claiming religious exemptions to demonstrate that their primary activities further a religious purpose.

Facts

The Schoger Foundation, established in Illinois, purchased Christ Haven Lodge in Colorado to operate as a religious retreat facility. The lodge offered various recreational activities such as a heated pool, sauna, and outdoor sports, alongside unscheduled religious activities like individual prayer, daily devotions, and occasional worship services. The lodge operated 24/7, with guests encouraged to make donations rather than pay fees. The IRS denied the Foundation's application for tax-exempt status under Section 501(c)(3), asserting that the lodge's primary purpose was to provide social and recreational activities in a commercial manner.

Procedural History

The Schoger Foundation applied for tax-exempt status in 1978, which was denied by the IRS in 1979. The Foundation then sought a declaratory judgment from the Tax Court, which reviewed the case based on the stipulated administrative record. The IRS abandoned the organizational test issue but maintained its position on the operational test, leading to the Tax Court's decision to uphold the IRS's denial of exempt status.

Issue(s)

1. Whether the Schoger Foundation was operated exclusively for religious purposes under Section 501(c)(3), or if its nonexempt activities were more than insubstantial.

Holding

1. No, because the court found that the Foundation's primary activities were social and recreational, which were more than insubstantial and did not further a religious

purpose.

Court's Reasoning

The Tax Court applied the operational test from Section 1. 501(c)(3)-1(c)(1) of the Income Tax Regulations, which requires an organization to be primarily engaged in activities that further exempt purposes. The court found that while the Schoger Foundation claimed to operate Christ Haven Lodge as a religious retreat, the lodge's activities were predominantly recreational and social. The court noted the absence of a structured religious program and the emphasis on recreational facilities, which were freely available to guests. The court cited cases such as *First Libertarian Church v. Commissioner* and *Better Business Bureau v. United States* to support its conclusion that the Foundation's nonexempt activities were substantial. The burden of proof remained with the Foundation, which failed to demonstrate that its religious activities were primary. The court emphasized that the lodge's operation resembled a vacation resort more than a religious retreat, leading to the denial of exempt status.

Practical Implications

This decision impacts how organizations seeking tax-exempt status under Section 501(c)(3) must structure their activities. It highlights the necessity of ensuring that religious or other exempt purposes are the primary focus of operations, with nonexempt activities being incidental and insubstantial. Legal practitioners should advise clients to maintain clear records of the time and resources devoted to exempt versus nonexempt activities. For similar cases, courts will likely scrutinize the nature and extent of an organization's activities to determine if they align with the stated exempt purpose. Businesses operating facilities with both religious and recreational components should be aware of this ruling when structuring their operations to avoid jeopardizing potential tax-exempt status. Subsequent cases, such as *B. S. W. Group, Inc. v. Commissioner*, have reinforced the principle that an organization's activities must primarily further an exempt purpose.