Piety, Inc. v. Commissioner, 82 T. C. 193 (1984)

An organization operated primarily for a for-profit business cannot qualify for tax exemption under Section 501(c)(3) solely by donating its profits to exempt organizations.

Summary

Piety, Inc. sought tax-exempt status under Section 501(c)(3) by operating bingo games and donating the profits to exempt organizations. The Tax Court held that Piety, Inc. was ineligible for exemption because it was primarily engaged in a for-profit business, and Section 502(a) precludes exemption for such organizations even if they donate profits to exempt entities. The court emphasized that an organization must directly serve an exempt purpose to qualify for tax-exempt status, not merely support other exempt organizations indirectly through profit distribution.

Facts

Piety, Inc. was organized in Nebraska to raise funds for charitable, religious, and nonprofit ambulance service groups through the operation of bingo games. The bingo games were conducted in a rented building in Iowa, with labor costs included in the rental payments. Piety, Inc. applied for recognition as a tax-exempt organization under Section 501(c)(3), but the IRS determined it was not operated exclusively for exempt purposes.

Procedural History

Piety, Inc. filed a petition with the U. S. Tax Court after exhausting its administrative remedies, seeking a declaratory judgment on its initial qualification for tax-exempt status under Section 501(c)(3). The case was submitted under Tax Court Rule 122, and the court reviewed the stipulated administrative record.

Issue(s)

1. Whether Piety, Inc. qualifies for tax exemption under Section 501(c)(3) by operating bingo games and donating the profits to exempt organizations.

Holding

1. No, because Piety, Inc. is primarily engaged in a for-profit business, and Section 502(a) precludes exemption on the ground of donating profits to exempt organizations unless an exception under Section 502(b) applies.

Court’s Reasoning

The court applied Section 502(a), which states that an organization operated primarily for the purpose of carrying on a trade or business for profit cannot claim

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exemption under Section 501(c)(3) merely by donating its profits to exempt organizations. Piety, Inc. ‘s operation of bingo games was deemed a for-profit business activity. The court further analyzed the exceptions under Section 502(b), concluding that none applied to Piety, Inc. ‘s activities. The court emphasized that to qualify for exemption, an organization must directly serve an exempt purpose, not merely support other exempt organizations indirectly. The court cited previous cases like *Industrial Aid for the Blind v. Commissioner* and *Smith-Dodd Businessman’s Association, Inc. v. Commissioner* to support its interpretation of the applicable statutes.

Practical Implications

This decision clarifies that organizations primarily engaged in for-profit activities cannot obtain tax-exempt status under Section 501(c)(3) solely by donating their profits to exempt organizations. Legal practitioners should advise clients that to qualify for exemption, their organization must directly serve an exempt purpose. This ruling impacts fundraising organizations, particularly those using gaming or other commercial activities to generate revenue, by requiring them to ensure their primary activities directly align with exempt purposes. Subsequent cases like *P. L. L. Scholarship Fund v. Commissioner* have reinforced this principle, further guiding legal analysis in similar situations.

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