La Verdad v. Commissioner, 82 T. C. 215 (1984)

An organization must provide detailed operational plans to qualify for tax-exempt status under IRC Section 501(c)(3).

Summary

La Verdad sought tax-exempt status under IRC Section 501(c)(3) but failed to provide detailed operational plans. The Tax Court upheld the Commissioner's denial, emphasizing that organizations must demonstrate they will operate exclusively for exempt purposes. The court found La Verdad's vague statements about future activities insufficient, highlighting the need for concrete plans on fundraising, grant criteria, and supervision to ensure compliance with tax-exempt requirements.

Facts

La Verdad was incorporated in Montana in 1981 to promote education, religion, science, and charity. It applied for tax-exempt status under IRC Section 501(c)(3), stating it would provide scholarships and support charitable endeavors. However, La Verdad did not specify the number of grants, criteria for selection, or procedures for ensuring funds were used appropriately. It planned to rely on donations from organizers and their associates but had no fundraising program. The IRS requested more details, but La Verdad's responses remained vague, leading to the denial of exempt status.

Procedural History

La Verdad applied for tax-exempt status in 1981. After initial and subsequent requests for more information, the IRS issued an adverse ruling in March 1982, which became final in August 1982. La Verdad then sought a declaratory judgment from the U. S. Tax Court, which upheld the IRS's decision on January 31, 1984.

Issue(s)

1. Whether La Verdad established that it will operate exclusively for exempt purposes under IRC Section 501(c)(3).

Holding

1. No, because La Verdad failed to provide sufficient detail about its proposed operations to demonstrate it would operate exclusively for exempt purposes.

Court's Reasoning

The court applied the requirement that an organization seeking tax-exempt status under IRC Section 501(c)(3) must show it is organized and operated exclusively for exempt purposes. La Verdad's application and responses to the IRS lacked the

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necessary detail on how it would carry out its objectives. The court cited cases like *World Family Corp. v. Commissioner* and *Church in Boston v. Commissioner* to support the need for detailed operational plans. La Verdad's failure to specify fundraising methods, grant criteria, and procedures for monitoring fund use led the court to conclude that it did not meet the statutory requirements. The court noted that while La Verdad's intentions might be sincere, good intentions alone are insufficient without concrete plans.

Practical Implications

This decision underscores the importance of detailed operational plans when applying for tax-exempt status. Organizations must clearly outline how they will raise funds, select grant recipients, and ensure funds are used for exempt purposes. This case has influenced how similar applications are reviewed, emphasizing the need for objective and non-discriminatory criteria in grant distribution. It also serves as a reminder that organizations can reapply with more detailed plans, as suggested by the court. Subsequent cases have cited La Verdad to reinforce these requirements, affecting how nonprofits structure their applications and operations to comply with IRS standards.

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